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AUTHOR Frederiksen, Jens V.; Westphalen, Sven-Age
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ABSTRACT

This document examines the principles, use, and benefits of human resource accounting (HRA), which uses numerical and nonnumerical data on items such as costs and benefits of training, staff turnover, absenteeism, and the value of employees' knowledge to measure the value of human resources in enterprises. The introduction presents an overview of HRA and its potential uses as a political tool, pedagogical instrument, and decision-making aid. The following topics are discussed in sections 1 through 3: rationale for the emergence of HRA at the macro- and microlevels (changing production and employment patterns and work organizations; changing roles of governments, enterprises, and individuals; reasons for developing HRA internally and externally); existing regulations and standards on reporting practice and definitions of key terms (accounting, audit, performance, intellectual capital, and bodies); and stakeholders in HRA (governments, trade unions, investors, enterprises, employees). Concluding the document are a review of key issues and stakeholders in HRA and case studies of HRA in practice in five organizations in three countries (Denmark, Sweden, and the United Kingdom): a private production enterprise, a public service provider, a private service provider, a public administrative organization, and a private production and retail enterprise. Contains twenty tables/figures and 44 references. (MN)

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Human resource accounting: in and conflicts

A discussion paper

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Prepared on behalf of CEDEFOP by:

Jens V. Frederiksen
State authorised public accountant,
KPMG C. Jespersen, DK-Frederiksberg

Sven-Åge Westphalen
CEDEFOP, GR-Thessaloniki

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A discussion paper

Prepared by:

Jens V. Frederiksen
State authorised public accountant
KPMG C. Jespersen
Borups Allé 177
DK — 2000 Frederiksberg
Denmark

Sven-Åge Westphalen
CEDEFOP

on behalf of CEDEFOP — European Centre for the Development of Vocational Training

Edited by Sven-Åge Westphalen under the responsibility of Stavros Stavrou, Deputy Director — CEDEFOP

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Marinou Antipa 12
GR-57001 Thessaloniki

Postal address:
PO Box 27 – Finikas
GR-55102 Thessaloniki

Tel. (30-31) 49 01 11
Fax (30-31) 49 01 02
E-mail: info@cedefop.gr
Internet: http://www.cedefop.gr
Interactive: http://www.trainingvillage.gr

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FOREWORD

Human resource management and accounting is developing rapidly. This paper is based on the revival and further development of human resource accounting (HRA) as a denominator.

The focus on HRA has increased both as a general term which puts a value on human capital and as a means of encompassing alternat non-financial accounting practices. Potentially, HRA can overcome the rigidity of traditional balance sheets, i.e. supplement the information provided by financial statements with information on human capital; improve human resource development; provide information on the costs and benefits of investments in human capital, etc.

Furthermore, HRA reflects new configurations of the individuals-enterprises-society relationship, in which traditional divisions of interests, rights and obligations find new expressions. Many enterprises, organisations and public bodies have developed HRA models, many of which are already being applied.

In this area there are various approaches with considerable methodological and terminological differences. The approaches and objectives of HRA models are closely tailored to individual users, which makes it difficult to achieve a standardised approach and, consequently, calls into question the ability of HRA to provide reliable information based on standardised parameters.

Consequently, it is often difficult to understand the contents of HRA and see its potential for different stakeholders. Furthermore, a small questionnaire on HRA sent to the representatives of the social partners and of the governments in the Member States of the EU plus Norway and Iceland revealed differences between them regarding the prevalence and use of HRA.

For these reasons, CEDEFOP has initiated this paper and developed it jointly with KPMG Denmark with the aim of providing a basic understanding of HRA from a contextual, a methodological and a political perspective, coupled with some case studies.

The paper has been commented by Mr. Ulf Johanson and Mr. Matti Skoog, Stockholm University, Sweden, Mr. Henrik Jensen, the Danish Ministry for Business and Industry and Mr. Keith Drake, University of Manchester, the United Kingdom to whom we are both very grateful. However, the final result is the responsibility of the authors, and we hope that the reader will benefit from our efforts.

Thessaloniki and Copenhagen, October 1998

CEDEFOP KPMG Denmark

INTRODUCTION

Until recent years, the 'value' of an enterprise as measured within traditional balance sheets, e.g. buildings, production plant, etc., was viewed as a sufficient reflection of the enterprise's assets. However, with the emergence of the 'knowledge economy', this traditional valuation has been called into question due to the recognition that human capital is an increasingly dominant part of an enterprise's total value. This has raised two important questions: how to assess the value of human capital in addition to an enterprise's tangible assets, and how to improve the development of human capital in enterprises.

The emergence of methods for accounting human resources (methods aimed at measuring, developing and/or managing the human capital in an enterprise) can thus be said to reflect the need to improve measuring and accounting practices and human resource management.

Hermansson (1964) was the first to attempt to include figures on human capital in the balance sheet, which became known as human resource accounting. *Human resource accounting as an approach* was originally defined as the process of identifying, measuring and communicating information about human resources in order to facilitate effective management within an organisation. It is an extension of the accounting principles of matching costs and revenues and of organising data to communicate other information in financial terms.[1] It involves measuring the costs incurred by business firms and other organisations when they recruit, select, train and develop human assets. It also involves measuring the economic value of people to organisations.[2]

According to Gröjer and Johansson, the accounting of human resources is as much a question of philosophy as of technique,[3] which is one reason for the variety of approaches. This is underlined by the wide range of uses to which accounting human resources can be put[4]:

- as a **political tool**, used to demonstrate mismanagement of human resources, and therefore to argue more strongly for more investment/better management;
- as a **pedagogical instrument** for analysing and structuring, and thus better understanding, personnel problems from an applied perspective, and thus being better able to balance applied values against other values;
- as a **decision-making aid** to ensure that decisions on human resources are more rational from the management point of view

However, providing adequate and valid information on human capital in figures and within traditional balance sheets has proved extremely difficult; consequently, new approaches such as social accounting and human resource auditing (see Section 2) take into account the fact that human capital and tangible assets are different in nature by introducing broader perspectives into human resource accounting.

In this paper, HRA will be used to refer to the various approaches, terms and definitions used to identify, measure and provide information about human capital in enterprises, where human capital will be defined as the knowledge that individuals acquire during their lives and use to produce

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1 Philips, 1996, p. 36.

2 Flamholtz, 1984, cited in Gröjer and Johanson, 1996, p.19.

3 Gröjer and Johanson, 1996, p. 17.

4 Gröjer and Johanson, 1996, p. 18.

goods, services or ideas in market or non-market circumstances.[5] Further, HRA will be defined as encompassing three elements: 1) identification and measurement of human capital in figures, 2) identification and measurement of human capital, including non-figure terms, and 3) provision of information internally and/or externally on human capital.

Thus, without a generally accepted definition, HRA can be narrowed down to one focal point, i.e. measuring and accounting human capital. This is being intensively examined and tested by enterprises, researchers, interest groups, national authorities and international organisations, mainly in the United States and northern Europe.

It is important to be aware of the fact that HRA is not only about putting figures on human capital; it is also about supporting human resource development/management.

Furthermore, increasing pressure will encourage or force enterprises to report on human capital and to enlarge the perspective from serving mainly the interests of investors to including the interests of other stakeholders, notably governments, trade unions and employees. This process is being further reinforced as stakeholders come to realise the potential of HRA not only as an accounting system but also as a means of establishing new structures across interests and policies.

The main stakeholders, which include governments, trade unions, investors, enterprises and employees, are increasingly formulating policies on HRA in order to influence the design of HRA.

Consequently, there will be a gradual transformation in the tendency to see HRA as either a management tool or an information system, and so as primarily a matter for manager and investors.

However, the search for a standard human resource account has led many researchers to focus on accounting problems and the design of individual accounts in enterprises, and it has generally failed to link the rise of HRA to the processes of change in the labour market and in society in general.

Thus, the existing literature and research focus mainly on the technical problems of measuring intangibles and on generating framework models to be used for implementing HRA. The models being developed for individual enterprises, on the other hand, tend to be more pragmatic and oriented towards specific enterprise-based objectives of the enterprise,. perspectives which are generally focused less on technicalities and more on human resource management than is generally acknowledged among researchers.

Whether a standard human resource account is required or even achievable is the next question for stakeholders and researchers alike.

Since most effort has been devoted to the measurement aspects of HRA or model building, there is no consensus neither among researchers nor among companies about the exact content of HRA exactly. Furthermore, since HRA is considered to be primarily a management tool or an accounting technique, there is a tendency to overlook the different and potentially conflicting interests surrounding HRA.

Thus, this paper has four aims:

1) to describe the background to the emergence of HRA

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[5] The definition of human capital is taken from OECD, 1996, p. 22. In a later publication, OECD defines human capital related to economic activity only (1998, p. 9). We believe that this is, however, a reduction of the value of human capital as well as of the different forms of relationships that constitute enterprises' performance.

2) to provide a systematised overview of HRA

3) to present and discuss the main stakeholders' interests in HRA

4) to present case studies which exemplify different approaches

Regarding point 4, the cases studied include a private production enterprise, a public service provider, a private service provider, a public administrative organisation and a private production and retail enterprise. These case studies were chosen in order to bring out the variety of HRA tools being used and to underline that most of the HRA models being developed in enterprises focus on human-resource development rather than on merely putting figures on the human capital.

SECTION 1: THE RATIONALE FOR THE EMERGENCE OF HRA (HUMAN RESOURCE ACCOUNTING)

The development of HRA can be seen as a part of and a response to the changes and developments at macro level (societal) and the micro level (enterprises), to which enterprises must adjust. Furthermore, the increased importance of intangible assets, which now contribute more to the creation of global wealth than tangible assets, poses both theoretical and practical problems, which both stakeholders and researchers address using HRA. This section presents briefly some macro and micro perspectives which have fuelled the development of HRA.

1.1 The macro level

This section highlights some of the macro level charges which have influenced the revival and further development of HRA, such as

- the change in production patterns, work organisation and employment patterns
- the changing roles of governments, enterprises and individuals

1.1.1 The change in production patterns, work organisation and employment patterns

Modern economies are changing fast; services, information and technology are increasingly important and innovation is taking place at a rapid rate. This on going transformation has already changed production patterns, work organisation and employment practices and has thus underlined the need for adequate responses.[6]

The shift from traditional industrial manufacturing to intangible knowledge production has led to a dramatic increase in immaterial production, and some analyses show that 'total intangible investment had passed physical investment in Germany, Sweden and the UK by 1987.'[7]

In short, labour-market development is shifting from production-based economic units to learning-based economic units,[8] emphasising the shift from traditional production factors to knowledge as a primary input in production processes and, hence, in output.[9]

Further, new forms of work organisation such as self-organising work groups and quality circles seem to be gradually replacing tayloristic production methods based on work division. This 'business process re-engineering' aims at a vertical integration of all production processes and a new division and organisation of work within and beyond enterprises, and it implies 'changing demands on the competences and skills of workers when taking over a broader variety of tasks and responsibilities.'[10] Both the supply side and the demand side of the labour market will be affected,

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[6] For a more detailed presentation of the socio-economic development see CEDEFOP 1998, chapter 6. See also Paul Osterman in Deiaco, Hörnell and Vickery, 1990, p. 39-63.

[7] Deiaco, Hörnell and Vickery, 1990, p. 1. A more recent study by Alroth, Björklund and Forslund, 1997, supports the findings in Sweden.

[8] Nordhaug, 1993, Introduction.

[9] In order fully to understand the present form of production, the traditional description of factors (means) production, i.e. capital, labour and land, must be supplemented explicitly with "knowledge" and "organisation" as separate entities hitherto embodied in the former.

[10] CEDEFOP, 1998, p.13.

since there will be a gradual change from permanent, stable employment, to individualised flexible employment patterns.

This can be exemplified by the dilemma between security and flexibility in employment, which may be viewed differently by employees and by firms: 'Middle and lower-end labour may well want much *more* job security than these high-tech firms (in Silicon Valley, ed.) want to give, while highly-skilled workers want *less* job security than is optimal for the firms.'[11] Consequently, in order to retain highly-skilled workers, firms will 'try to design compensation and training schemes that will reduce turnover - thus in effect trying to make the highly skilled labour force less flexible.'[12]

Nevertheless, the shift from long-term employment to flexible employment is clear and can be seen in the development in part-time work: from 1979 to 1990 part-time work increased by 100% in The Netherlands, 70% in Belgium, 59% in Ireland, 46% in France and 33% in the United Kingdom,[13] and the European Commission states that part-time jobs accounted for all net job creation in the EU from 1990 to 1996.[14]

The above examples indicate the variety of the new and more complicated problems created by a more unstable labour market.

1.1.2 The changing roles of governments, enterprises and individuals

Economic and social change, combined with a need to minimise public spending while optimising public services, have put pressure on governments' abilities to sustain and develop a large range of formerly institutionalised public services.

The persistent and increasing public sector debt in most Member States of the European Union, which began in the early 1970s and has continued until the late 1990s, has underlined the limitations of the public sector's being the sole provider of social security systems and of other public goods such as social stability, a clean environment, etc.

Rising unemployment has been seen in part as a consequence of inflexible labour markets, which resulted in a massive loss of especially low-paid and unskilled jobs as well as a loss of international competitiveness. However, with the experience we have today it can be argued that the loss of competitiveness and of low-skilled jobs was equally due to the failure of enterprises and the labour force to adapt to the new situation, where knowledge and, consequently, the continuous updating of knowledge are the main impetus for remaining competitive, both for individuals and enterprises.

Many factors contribute to the changing role of enterprises: the globalisation of markets, increased competition, the relocation of enterprises to low-wage countries, the need for ever faster product development and innovation, the faster rate at which of knowledge becomes outdated and the changing role of governments which, generally, generates change for enterprises.

Those changes can be exemplified by the formation of local partnerships, witnessed in many countries, aimed at combating unemployment, poverty and social exclusion. The participants in these local partnerships include national, regional and local governments, the social partners, non-

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[11] See Carnoy, M., Castells, M. and Benner, C. (1997), pp. 43-44.

[12] Ibid.

[13] See Dürmeier (1997), pp.180.

[14] European Commission (1997): Employment in Europe, Brussels, p.7 and p.19.

governmental organisations, local communities and the excluded groups themselves.[15] To some degree, this can be seen as one way of establishing what Coleman defined as social capital, i.e. the networks, norms and relationships which enable the development of human capital.[16]

Other phenomena are the arrival of the political consumer and, generally, a change of values in society; either through regulation or through direct consumer action, these phenomena have put pressure on enterprises which have not already adjusted to the new situation to develop policies and strategies encompassing more than economic considerations.

The notion of the political consumer as been accompanied by individualisation as another phenomenon in society, and in the labour market in particular, which must be incorporated into the innovative strategies of enterprises. In addition, labour markets in the European Union are gradually returning to a situation of low unemployment, especially within the knowledge sectors of the economy, thereby leading to increesed competition for the qualified workforce. The latter trend is being reinforced by the demographic development of the ageing of the population, which may lead to a shortage of qualified labour in the future.

At the macro level, HRA reflects socio-economic developments emphasising the changing distribution of responsibilities among individuals, enterprises and the public sector, and a change in expectations and demands among the various actors. This is exemplified throughout this report and by the case studies presented in Section 5.

1.2 The micro levels

The micro level perspectives are directly linked to HRA which, again, could be developed both for internal and external use. For internal use HRA can be considered a management tool, and for external use, a tool for profiling the enterprise/organisation.

The following reasons for developing HRA are often cited:

Reasons for developing HRA internally	Reasons for developing HRA both internally and externally	Reasons for developing HRA externally
to improve human resource management	To overcome problems arising from the valuation of intangible assets	To overcome the difficulties in providing sufficient information to investors in traditional balance sheets
To focus on employees as assets	To redistribute social responsibilities between the public and the private sector	To profile the enterprise and improve its image
To retain qualified labour force		To attract future employees

Figure 1.2 Reasons for developing HRA

Very often management focuses on only one or two of the reasons mentioned above. But it is obvious that there is a strong connection between external and internal HRA. They are not mutually exclusive; sometimes one may even be a prerequisite for the other. If, for example, an enterprise

[15] See European Foundation, 1998.

[16] Coleman, 1990.

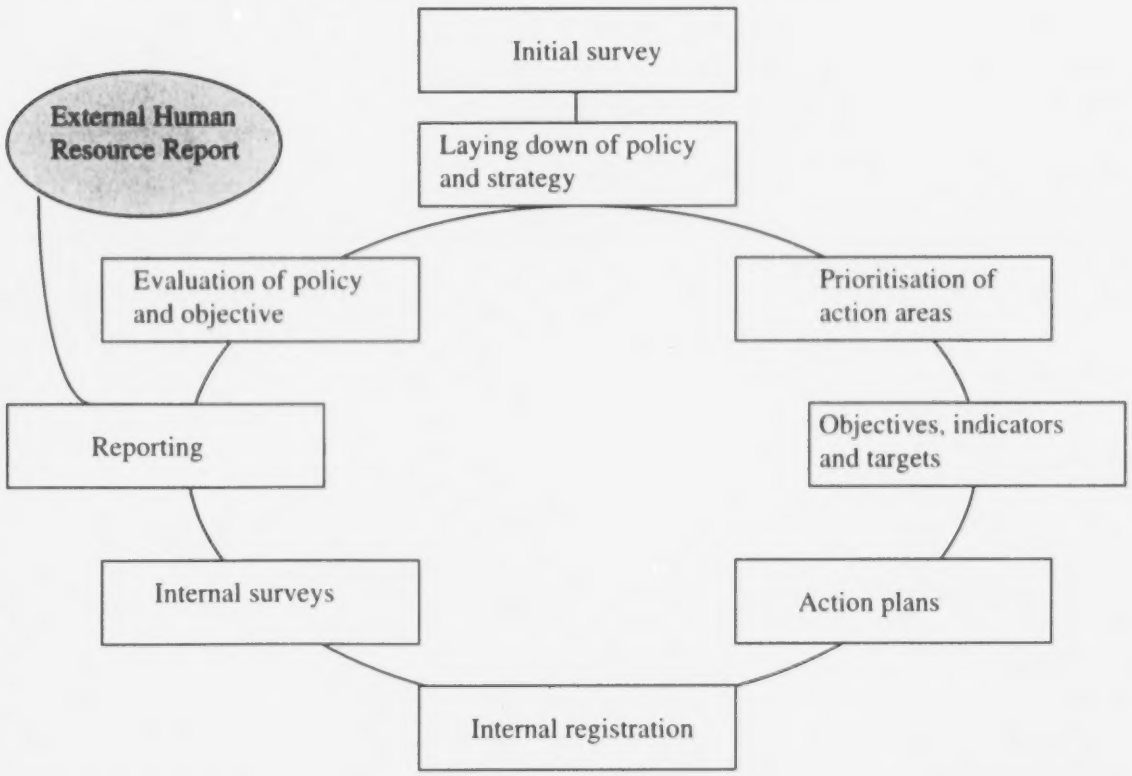
decides to prepare and publish a social report, they will have to measure the indicators included in the social report. By measuring these indicators, management obtains greater knowledge about its own organisation. In this process management will very often identify areas which could be improved. That is human resource management.

1.2.1 Reasons for developing HRA for internal purposes

1.2.1.1 To improve human resource management

So far human resource management (HRM) has often been carried out on the basis of strategies, plans and goals which have been defined and managed without simultaneous definition of specific targets, indicators, measurements, etc. Informal management systems and the intuition of the management have been sufficient to ensure that human resource management projects have been successful. Increased focus on human resource management and improved information technology have now led to the adoption of the saying: 'what you cannot measure, you cannot manage'.

In principle HRA is a tool to be used when implementing or improving HRM. The connection between HRM and HRA can be described on the basis of this diagram:



The circle describes the Human Resource Management System as a whole. In the lower and left part of the circle, it appears that registrations, procedures and internal and external reporting should take place. This covers the basic elements in HRA.

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From the literature and experience we know that enterprises and organisations register up to 150 variables on each employee.[17] These data present a tremendous potential for developing measures, performance indicators, etc. But very often the data are collected only for specific use (for example, reporting to authorities) and not for aggregation, analysis and reporting to management.

If management were to focus on data already available in their organisation to set up management reporting systems, much would be gained, and it is only a small step from reporting periodically to management on key human resource indicators in a standardised way to setting up management systems. It requires management to: set goals and targets for key performance indicators; decide what action should be taken to meet the goals; implement the action; measure and report on the results of the action, and adjust the goals and targets, etc. A virtuous circle would then be established.

1.2.1.2 To focus on employees as assets

Until recent years, management's main concern was whether production equipment and buildings were well maintained and functioning; the focus was on fixed assets, and employees were considered as overheads. The development of technology was rather slow, and the enterprise's ability to change and to be innovative was less crucial. Nowadays, technological development is fast and new products have to be developed in order to meet market demands and competition. Consequently, the enterprise's ability to manage change and to be more innovative than its competitors is critical.

The shift in focus from fixed assets to employees still depends largely on the specific business sector. In this connection human resource accounting, knowledge accounting, measurement of intellectual capital, balanced scorecards, etc., are important tools for management. Employees are considered not as overheads but as assets, as it is the emolyees and not the outdated buildings and production equipment, who will carry the enterprise into the future.

1.2.1.3 To retain qualified labour force

Years ago many employees, e.g. in factories, were low-skilled and received only the absolute minimum of training needed to carry out their jobs. Now enterprises and organisations have to invest huge amounts in training, updating the labour-force's education and qualifications, etc., in order to meet market demands. At the same time, enterprises and organisations have to convince employees that their present job and employer are more attractive than those on offer in the market, as qualified labour is now a scarce resource in many Western countries. This means that management has to invest in employees while also ensuring that the enterprise or organisation maintains a reputation as a good place to work, i.e. maintaining a high profile on social and ethical issues, etc.

This investment in human capital encourages management to measure and to collect data on human resources and to manage those resources as an important asset for the enterprise. HRA is also about making these investments more efficient from a strategic point of view as well as from a cost/benefit point of view.

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[17] Philips, 1996, p. 19.

1.2.2 Reasons for developing HRA both internally and externally

1.2.2.1 To overcome problems deriving from valuation of intangible assets

Usually most of the intangible assets of an enterprise, such as goodwill, patents and licences, research and development, human capital, etc., are not included in the net book value of the enterprise. Costs are entered in the profit and loss account as an expense at the time they are incurred.

Key performance indicators for many areas within HRA are now recognised, but there is still no generally accepted accounting practice for assessing the financial value of these assets; although the value of a highly-skilled, well-performing and highly-motivated workforce is 'nil' in financial statements, the increasing profit from these factors will be entered in the accounts.

Further, a company's good name will be determined by the market position of the products, its production and distribution network, customer lists and marketing rights and the market expectations of employees' qualifications, innovative abilities, motivation, etc.

It is therefore crucial that not too many negative events be linked to the name of an enterprise. If the goodwill in general terms is positive it means that:

- customers will be attracted
- people working for the enterprise will be proud, which will attract new employees
- investors will be attracted
- other enterprises may be attracted to the enterprise, for example through mergers and takeovers or new alliances.

Other assets deriving from excellent human resource performance are patents, licences and innovative ability, especially in science-intensive businesses. Usually research and development expenditure is included in the profit and loss account. Costs related to purchase of patents, licences and similar rights can be capitalised and thus included in the net book value of the enterprise.

As most expenses are included in the profit and loss account, the enterprise must communicate information about new inventions, new products, human capital, etc., by other means.

1.2.2.2 To redistribute of social responsibilities between the public and the private sector

In recent years we have seen within the EU a tendency among enterprises and organisations to take over more and more social responsibility from the public sector. Local and international industrial networks, union leaders, etc., argue that enterprises and organisations should be seen as an integral part of society and thus accept their share of responsibility. At the same time, EU and national governments encourage such initiatives;[18] for example, an industrial network in Denmark - 'Partnership for Social Cohesion' - launched at the initiative of the Ministry of Social Affairs, has been active for four years. Union leaders are realising that the time has come not only to demand higher salaries but also to go for better working conditions, better quality of living, etc.

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[18] See for instance the European Foundation, 1998.

All these initiatives put pressure on the private sector to measure, monitor and report on human resources.

1.2.3 Reasons for developing HRA externally

1.2.3.1 To overcome the difficulties in traditional balance sheets in providing sufficient information to investors

A lot of discussions and work are being done at present by accounting, financing, investors' and other non-governmental organisations (NGOs) in order to overcome the difficulties in providing this new type of information to investors. Organisations such as the International Accounting Committee (IAS) and Fédération des Experts Comptables Européens (FEE) are active in this area. The discussion particularly concerns companies listed on stock exchanges.

SustainAbility - an NGO that periodically carries out a benchmark survey on company environmental reporting for the United Nations - concluded in its 1997 survey that the enterprise of the future will have to report a triple bottom line: the triple bottom line includes financial, environmental and social performance. This concept has already been adopted by companies such as Shell, The Body Shop and Novo Nordisk.

On the basis of their analysis of environmental reporting all over the world, SustainAbility is considering a 10-transition development as follows:

	The 10 transitions		
	Established focus	->	**Emerging focus**
1	One-way passive communication	->	Multi-way, active dialogue
2	Verification as option	->	Verification as standard
3	Single company progress reports	->	Benchmarkability
4	Management systems	->	Life-cycles, business design, strategy
5	Inputs and outputs	->	Impacts and outcomes
6	Ad-hoc operating standards	->	Global operating standards
7	Public relations	->	Corporate governance
8	Voluntary reporting	->	Mandatory reporting
9	Company-determined boundaries	->	Boundaries set by stakeholder dialogue
10	Environmental performance	->	Triple bottom line performance

Figure 1.3 The 10 transitions (SustainAbility, 1997, p. 5)

It appears that organisations have realised that it will be impossible to have all relevant information translated into financial data expressed in terms of money and included in their financial statements.

The transition in corporate reporting will mean, in the short run, that enterprises adopting these concepts will issue a number of reports each year, covering different aspects of the enterprise's performance. In the long run, this information is expected to be summed up in annual reports

covering all aspects. At the same time enterprises will make more use of the Internet, CD-ROMs, etc., in communicating with their stakeholders.

The transition from reporting on only financial performance to reporting on triple-bottom-line performance will dramatically increase the need for HRA because HRA is an important basis for and an integral part of social reporting, which includes a description of a number of employee-related aspects in the reporting enterprise.

1.2.3.2 To create and improve the company image through presentation of HRA

HRA is already be a way of profiling enterprises and organisations and it will certainly continue to be so in the future, even though human capital is not included in the net book value. This is especially the case for listed companies with a wide circle of owners/investors, where management will focus on reporting on intangible assets in order to improve the reputation of the enterprise.

This being the case, management will focus on increasing the market value of the enterprise, even though the net book value does not reflect this in the short run. The market value of the enterprise reflects the net present value of the expected future cash flow of the enterprise. In the private sector the difference between the net book value of the enterprise and its market value depends largely on the line of business of the enterprise, as is shown in an analysis from 1995:

The Era of the Knowledge Organization

Figure 1.4 Market value and business line (Sveiby, 1997, p. 6)

Figure 1.4 shows that lines of business which require a considerable creativity (entertainment) or are science-based show a significant difference between market value and net book value. Businesses

with less specialised requirements of their employees show the least difference between market value and net book value. However, it is important to note that intangible assets also include assets like goodwill, patents and licences, research and development, etc. Sectors like the insurance sector, which consists predominantly of human capital, do not therefore necessarily have a higher proportion of intangible assets than the steel sector, if the latter has many other forms of intangible assets. Furthermore, the value of intangible assets may vary between sectors.

This figure demonstrates how important it is for enterprises to report on intangible assets including human capital, innovative capability, etc., no matter what the financial figures show. Sveiby's analysis of the 1995 figures is also broken down by individual enterprise, as shown below:

Figure 1.5 Market value and intangible assets for individual enterprises (Sveiby, 1997, p. 7)

Figure 1.5 shows that 4 of the 6 enterprises with the greatest difference between market value and net book value are in the computer business. The development of computer software makes considerable use of the knowledge, intelligence and capability of employees; computer companies do not need fixed assets. A computer and an office chair will satisfy most of the employees in such businesses if management is able to make the job attractive in the other ways discussed above.

Consequently, it is crucial for the enterprise to report to its stakeholders on the human capital of the enterprise, its innovative capability and its ability to be consistently first in the market with new quality products.

The figure also shows that 4 of the 10 enterprises with the least difference between market value and net book value are in the car manufacturing business, while 2 are in the chemical business. These businesses require heavy investment in fixed assets (production equipment, buildings) in order to be able to operate. Some of the enterprises in this business also have problems with their reputation, as their operations and products may cause pollution.

However, it must be noted that the market value is a fluid figure itself, which makes it an unreliable denominator of intangible assets.

1.2.3.3 To attract future employees

In the Western world we now face a period where the number of young people entering the labour market will decrease. At the same time, many young people demand honest work, want to work for a well-respected enterprise and want to be able to have a decent life outside working hours, etc. All of these are quite new requirements; into the past, high salaries were the most important factor.

This new trend puts pressure on enterprises and organisations that want to attract these young employees; employers have to focus more on their employees than they did in the past, and this requires better HRA, since HRA is an important external reporting tool which allows the enterprise to document its investment in its employees.

SECTION 2: TERMS AND DEFINITIONS

The area of HRA is developing rapidly, and there are many different 'players' in the field. These players come from different professional backgrounds (economists, accountants, sociologists, psychologists, etc.) and represent different interest groups (enterprises, consultancy firms, universities, unions, NGOs, etc.). Methodologies, techniques, terms and definitions vary from player to player. Many terms and definitions are generic, but an increasing number are 'brand definitions' developed by specific enterprises. Consequently, the whole terminology within the area is very confusing, and the same term may mean different things to different speakers. The purpose of this chapter is not to make new definitions or to decide which definition is correct; rather, it is to list the most commonly used definitions of the most commonly used terms, with reference to the literature.

It is advisable for those who intend to work in this area to start by reaching agreement on all important terms and definitions in order to avoid misunderstandings.

2.1 Existing regulations and standards on reporting practice

There are very few legislative requirements on the issuing of information and external reports on human resources and social performance, and those requirements refer only to financial statements in the case of enterprises or agencies. Legislative good practice initiatives are usually taken either by the EU and national parliaments or by industry and accountancy bodies.

The European Community's 4th Directive of 1978 (78/660/EEC) sets guidelines for the contents of financial statements for public or private limited companies, limited by shares or by guarantees, within the EU. The aim of the Directive is to ensure uniform reporting by enterprises within the EU, including the publication of information which influences the financial position of the enterprises. In relation to personnel, the 4th Directive requires enterprises to provide information on their employees only as regards wages, salaries and social security costs. In most countries, these minimum requirements are supplemented by further requirements such as number of employees.

In 1991, the Swedish government proposed that organisations with more than 100 employees should be legally required to provide an account of personnel costs (e.g. personnel turnover, sickness leave, training and working environment) in their annual reports. Even though the proposal was withdrawn, it shows the interest of legislative bodies in this area. In Denmark, financial statements must include information on the average number of employees, and the compulsory 'green accounts' (environmental reports) must include certain information about the working environment.

For companies listed on stock exchanges, the information requirements are greater; such companies usually have a wider range of owners and must therefore report more detailed information, in a uniform manner and simultaneously, to all parties outside the enterprise. In order to ensure uniform reporting for listed companies from different countries (both inside and outside the EU), audit and finance bodies around the world have established the International Accounting Standards Committee (IASC), which sets accounting standards. These standards are normally considered good reporting practice for listed companies. The IASC has issued accounting standards on the disclosure of information on Retirement Benefit Costs (1993) and on the disclosure of information on Retirement Benefit Plans (1994) and a standard on Employee Benefits (1998).

In some European countries, annual reports on government agencies are also prepared and published. In Denmark, it has been decided that all government agencies meeting certain criteria

relating to size and appropriation should prepare annual reports which include detailed information on staff and organisation, e.g. absence due to sickness, staff turnover, overtime and additional work (for more details refer to Case Study 4).

2.2 Terms and definitions

The terms and definitions used by the various players can be grouped as follows:

Main term	**Including:**
Accounting:	Accounting in general Human Resource Accounting Social and Ethical Accounting
Audit:	Audit in general Human Resource Audit Social Audit Verification
Performance:	Performance Indicators Performance Standards Benchmarks
Intellectual Capital:	Human Capital Structural Capital Customer Capital Organisational Capital Innovation Capital Process Capital
'Bodies':	Audit Committee Audit Advisory Group Social Audit Review Panel

2.2.1 Accounting

Accounting in general

Accounting is keeping track of an organisation's affairs, records and files through systematic development and analysis of information so as to better understand those affairs, records and files or to be accountable to the organisation's stakeholders, including management. An account is a set of records of an organisation's actions or transactions.

Human Resource Accounting

HRA can be considered both an internal and an external discipline: internal as a management tool; external as a reporting tool. In HRA, human resources are viewed as assets or investments of the organisation.

HRA was originally defined as the process of identifying, measuring, and communicating information about human resources to facilitate effective management within an organisation. It is an extension of the accounting principles of matching costs and revenues and of organising data to communicate relevant information in financial terms. However, the process includes the concept of

accounting for the condition of human capabilities and their value as provided by the measurement tools of the behavioural sciences.[19]

Social and Ethical Accounting

Social and ethical accounting can be defined as the system under which organisations measure and follow up on the key social and ethical indicators which they have defined as relevant to and significant for demonstrating their social responsibility. Social and ethical indicators are sometimes identified and developed by the organisation working together with its main stakeholders.

Social and ethical accounting may include indicators such as health and safety, racial and sexual equality, redundancies, employee training, employment of the disabled, pension fund adequacy, etc.

Social Report

This is a document which is made available to stakeholders, either as a summary social report to be included in the Annual Report or as a full report available to all.[20]

Social Reports draw on data from the social and ethical accounts.

2.2.2 Audit

Audit in general

Until recently, auditing was used mainly as a process to verify financial statements, in order to add credibility to the information. However, in recent years there has been a tremendous expansion in the extent and type of the information and systems being audited. Auditing has now developed to a point where it includes quality, environmental management, production, operations, sales, data processing, engineering and human resource management.

An audit is thus the examination and investigation of an organisation's affairs and records, which provides an independent opinion and assurance.

Human Resource Audit

Human Resource auditing is seen both as an internal management tool and as a process which leads to a verification statement issued by an external verifier and which is intended to lend credibility to an external report.

An internal human resource audit is an investigative, analytical, and comparative process which assesses the effectiveness of the HR function. It undertakes a systematic search and gathers, compiles, and analyses data in depth for an extended period, frequently a year, rather than for formal/informal, daily reports.[21]

Social Audit

The British organisation Social Audit Ltd. defines social audit as the publishing of data covering an organisation's interactions with employees, consumers, the community and the environment in the interests of a wider accountability and the presentation of a 'balanced view.'[22] Owen[23] declares that

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[19] Philips, 1996, p. 36.

[20] Ben & Jerry's, 1995.

[21] Philips, 1996, p. 37.

[22] Gray, 1993, p. 264.

a social audit can be best understood as a reaction against conventional accounting principles and practices. A social audit encompasses a broader financial and economic perspective, reaching beyond the individual enterprise to the local economy of which it is a part, or to different types of organisations such as State agencies. A social audit attempts to embrace not only economic and monetary variables but also social ones, including some which may not be amenable to quantification in monetary terms.
An individual enterprise can define a social audit as the annual process of information gathering, the review of data necessary to construct the social report, and all processes designed to substantiate and verify information used.[24]

Verification
For The Body Shop, verification means the process of ensuring that statements of fact or theory are meaningful and accurate. The process adopted by verifiers to The Body Shop involves all of the following: understanding the audit process; guiding towards a particular direction in the audit process; viewing/sampling specific stakeholder interactions where necessary; sampling stakeholder survey results; reviewing policy and other documentation; reviewing internal management audit reports; interviewing management and staff where appropriate; data sampling where appropriate; commenting on the draft of the public report; selection and management of Audit Review Panel process; and drafting of the audit verifier's statement.

2.2.3 Performance

Performance Indicators
An indicator is normally a quantitative measure of performance. Data are gathered through constant internal monitoring, and both the data and the monitoring process are subject to internal audit and verification.[25]

A performance indicator is a parameter which is selected as being characteristic of an important social, ethical or knowledge-related issue and which is regularly recorded quantitatively. The parameter should be meaningful in terms of the day-to-day work of the enterprise and should be clearly specified. Performance indicators are specific measurements of performance, with information from more than one year presented as it is gathered.[26]

Performance Standards
Performance standards should reflect the available information (both national and international) on best practice concerning activities and policies which describe an organisation's performance in relation to social and environmental issues. Standards may be both quantitative and qualitative, and they are agreed upon by the relevant departments within the enterprise which then are responsibile for collecting the relevant information. Data are submitted by the departments and validated by the audit and verification process.[27]

Benchmarks

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[23] Owen, 1992, p. 216.

[24] Ben & Jerry's, 1995.

[25] The Body Shop, 1997.

[26] Ben & Jerry's, 1995.

[27] The Body Shop, 1997.

Benchmarks are internal or external standards by which one can measure something or assess one's performance. They include comparisons of internal performance indicators with relevant data from external sources.[28]

2.2.4 Intellectual Capital

Intellectual capital is relevant in all organisations, but most of all in knowledge-based organisations. The success of a knowledge-based organisation depends upon two factors: competent employees and good management. Two organisations with identical employee competence but different management approach will achieve completely different results. As one CEO said: 'If we only knew what we knew, we would be three times as effective.'

For knowledge to be useful to the enterprise, it has to be made explicit, accessible and effective. Measuring and reporting on 'intellectual capital' has been very much influenced by the concept developed by the Swedish service and insurance group Skandia. Since 1994, Skandia has reported on different aspects of its intellectual capital twice a year.

Skandia's definitions refer to private companies, but they can easily be adapted for use in non-profit organisations and public agencies, etc. Skandia argues that intellectual capital is that part of the enterprise's market value which is not included in the financial capital, and describes it as follows:

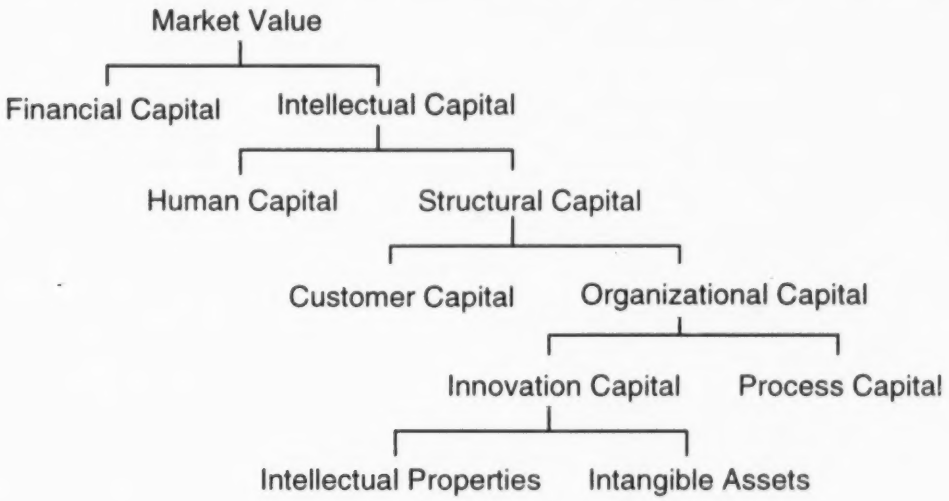

Figure 2.1. Structure of intellectual capital

Intellectual capital is defined as the sum of structural capital and human capital. It could be defined as 'Something that you cannot touch, but that still makes you rich' (for more details please refer to Case Study 3).

Human Capital

In general human capital can be defined as the knowledge that individuals acquire during their lifetimes and use to produce goods, services or ideas in market or non-market circumstances.[29] Human capital 'goes home every evening'.

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[28] Ben & Jerry's, 1995.

[29] OECD, 1996, p. 22.

Structural Capital, Skandia

Structural capital can be defined as a residual, i.e., the value of what is left when the human capital - the employees - has gone home. Some examples of structural capital are databases, client lists, manuals, trademarks and organisational structures.[30]

Customer Capital

Customer capital is the value of the customer base, customer relationships and customer potential, including the value of contracted customer relationships. The customer base is defined as relationships with existing customers in existing markets. Customer relationships is defined as current and potential business relationships with current customers.[31]

Organisational Capital

Organisational capital is defined as systematised and packaged competence, plus systems for structuring the enterprise's innovative strength and value-creating organisational capability.[32]

Innovation Capital

Innovation capital is defined as the renewal strength in an enterprise, expressed as protected commercial rights, intellectual property and other intangible assets and values.[33]

Process Capital

Process capital is defined as the combined value of value-creating processes.[34]

2.2.5 Bodies

Audit Committee

It is not unusual for larger organisations and groups to set up bodies which, although they do not have the authority of statutory financial auditors, can supervise the work carried out by management and the board of directors. In the Anglo-American system, only one level of management exists, the board of directors. In Britain, the financial collapse of the BCCI and Maxwell groups in the early nineties led to a sharper focus on the obligations of the board of directors.

This resulted in 1992 in the Cadbury report, which contained recommendations regarding audit committees in major enterprises. The Cadbury committee recommended the following in relation to audit committees: they should be formally constituted as sub-committees of the board of directors to whom they are answerable and to whom they should report regularly; they should be given written terms of reference which deal adequately with their membership, authority and duties; they should normally meet at least twice a year; and they should have a minimum of three members. Membership should be confined to the non-executive directors of the company, and a majority of those serving on the committee should be independent of the company.

The audit committee should have explicit authority to investigate any matters within its terms of reference, the resources which it needs to do so, and full access to information. The audit committee

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[30] Skandia, 1997, p. 23.

[31] Skandia, 1997, p. 23.

[32] Skandia, 1997, p. 23.

[33] Skandia, 1997, p. 22.

[34] Skandia, 1997, p. 23.

system has been adopted in some organisations for use in connection with the implementation of the process leading to the preparation and publishing of social and ethical accounts.

Audit Advisory Group

An Audit Advisory Group can be defined as a panel of advisors from outside the enterprise which reviews and comments on the draft social report and supporting accounts and serves to advise the external auditor. Members of this group have no permanent financial relationship with the enterprise; the enterprise pays their expenses for participation in the Advisory Group as well as a small stipend if members wish to receive it. Group members are not required to affix their names to the final social report, but may do so voluntarily, without necessarily implying full agreement with all of the statements which it contains.[35]

Social Audit Review Panel

The panel is comprised of independent persons with relevant expertise on different stakeholder perspectives. The panel receives documentation on the social audit process and result, comments on it and advises the external verifier on the final validation of the published statements.[36]

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[35] Ben & Jerry's, 1995.

[36] The Body Shop, 1997.

SECTION 3: IDENTIFICATION OF STAKEHOLDERS

Generally, HRA is viewed as either a management tool or an information system, and as such, it is perceived primarily to be a concern for management bodies and investors. Consequently, trade unions and governments have been relatively passive in participating in and formulating policies on HRA. This is reinforced by most researchers and practitioners, who focus on the accounting problems and the design of individual accounts on enterprise level and, generally, fail to link the rise of HRA to the general transformation processes observable in the labour market and in society in general.

However, it must be expected, given the gradual development of standardised practises and the wide variety of individual approaches, that stakeholders will have to position themselves and formulate policies and strategies within the area. This process will be further reinforced when stakeholders realise the potential of HRA not only as an accounting system but as a means of establishing new structures across interests and policies.

Whereas for some, notably investors and enterprises, HRA may be just a matter of adjusting and improving existing mechanisms to keep pace with the general changes, for others, such as States and trade unions, HRA can be seen as a part of the crucial transformation of established roles and functions in society.

3.1 The different interests in HRA

The interests in HRA originate from different perspectives. The following six issues, although not exhaustive, are the ones dominating the debate, reflecting not only the potential of HRA but also the deviations from traditional demarcations within the wider economic and social context:

- the inadequacy of traditional balance sheets in providing sufficient information to potential investors
- the measurement problems associated with the valuation of intangible assets
- the redistribution of social responsibilities between the public and the private sector
- security versus flexibility in employment
- improved human resource management
- formal learning versus in-firm competences

The above issues will always overlap. For instance, the redistribution of social responsibilities is two-sided: it addresses the emerging responsibility of enterprises in areas which have traditionally been the responsibility of the public sector, such as the introduction of workplaces for less able people; yet, it also reflects the problems stemming from the increased use of flexible employment and the social security questions it raises.

3.2 Classification of stakeholders

Given the variety of approaches to HRA (as described in chapter 3) and especially the actua way that the different stakeholders are involved in practice, it follows that the stakeholders vary

accordingly. In this respect it is important to underline that HRA is a system or a tool used by enterprises but affecting both individuals and society. Consequently, the following stakeholders can be identified: [37]

Figure 3.1: The stakeholders at different levels.

Level	Main Stakeholders	Other stakeholders
Society	governments	local governments the political consumer
	trade unions investors	employers' associations
Enterprise	enterprises	sub-contractors
	employees	potential employees
Individual		dependants

This paper will concentrate on the main stakeholders.[38]

However, it must be kept in mind that one striking element of the current changes in the labour market and in society in general is the increasing difficulty in characterising and treating stakeholders as uniform entities.

Thus, in order for HRA to reach its potential as a multi-faceted instrument for understanding and encompassing the new patterns, the stakeholders' interests have to be expressed.

Having said that, it must not be forgotten that stakeholders operate within power structures and, to a certain degree, conflicting interests, which will also be apparent in the HRA area. Therefore, HRA can be used one-dimensionally, contributing to conflicts as well as to short-term solutions, or as a tool for identifying common interests between different stakeholders for long-term solutions.

3.2.1 Governments

The governments' responsibility for general education, and to a varying degree for initial vocational training and training for the unemployed, highlights the need for improved information on the nature of the demand for training from individuals and enterprises. Furthermore, it must not be forgotten that the government itself is a major employer interested in optimising its human resources. Finally, governments' responsibility for providing standards and rules for the regulation of society in general, and the economy in particular, requires active public involvement in, for instance, instruments for measuring intangible assets in enterprises.

Regulation, provision of education and training, cost optimisation and cost sharing are thus the four key reasons for governments to be involved in HRA.

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[37] Guy Ahonen lists company owners, management, employees, potential employees, customers, investors, financial institutions, health and safety authorities and insurance companies as potential users of human resource information. See pp. 28-29 in Ernst &Young (1997). However, this list is both too specialised and too fragmented to form the basis for a structured presentation and analysis of stakeholders.

[38] Employers' associations are not included under main stakeholders. Their views will be expressed under 'enterprises' as their views will be almost identical. It will be apparent from the text that this is not the case for trade unions and employees.

Consequently, governments and public authorities advocate social responsibility in enterprises while adapting human resource accounting elements to their own reporting practices (see for instance Case Study 4). Thus, they are deeply involved in establishing alternative balance sheets while at the same time initiating educational reforms and introducing active labour-market policies which involve private organisations or the social partners.

Based on a working paper developed by the Finnish government together with its social partners, an HRA system with the following main categories was tested in the public sector:[39]

- knowledge about the development of personnel in numbers and in structure
- use of working hours
- personnel-related costs
- personnel resources and the their development
- state of personnel, both physical and mental well-being
- reward systems
- efficiency and service ability
- value

The data gathered provides information on:[40]

- how cost-effectively human resources are managed, so that the organisation benefits from its human capital as much as possible
- how the organisation has taken care of its personnel, so that they have both quantitatively and qualitatively adequate human resources
- how the quality of work and working conditions, personnel resources, efficiency and personnel well-being has been taken care of.

The HRA system was tested in public organisations, but could easily be adapted to private organisations. The aim of the system is to provide information to the owners of the organisation, management, human resource experts and staff, and personnel.

Similarly, the Danish Ministry of Business and Industry is testing a framework model for intellectual capital accounts, which according to the Danish minister, Mr. Jan Trøjborg, 'give an overview of the factors that create development within the company: the people working for it, their qualifications and the way in which they carry out their work.... If things are not in order and are not consistent with the market or the strategy the company is following, this will become apparent in the intellectual accounts.'[41]

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[39] Rouhesmaa and Bjurström, 1996, chapter 4.

[40] Rouhesmaa and Bjurström, 1996, chapter 4.

[41] Danish Ministry of Business and Industry, 1998, p.3.

The Danish ministry stresses the need for a broad interpretation of knowledge and provides some examples of figures which could be included in an intellectual capital account:[42]

- costs of training
- IT skills
- the seniority of each employee
- running-in time for new organisational units
- employee satisfaction
- costs per process
- customer satisfaction

The Danish government's interest in intellectual capital accounts must be seen from the macro perspective of maintaining the competitiveness of Danish enterprises. It also sees the testing of a framework for intellectual capital accounts as a means of establishing a common intellectual capital account internationally, thus expressing the role of governments in providing regulation.

Perhaps the governments' interest in education and training and shared responsibility is most clearly expressed by the European Commission, which advocates treating capital investment and investment in training on an equal basis. In this respect, the European Commission proposes that support structures be established at a European level for the measurement of investment in education and training on the one hand and promotion of investment in human resources on the other.[43]

3.2.2 Trade unions

The general weakening of trade unions[44], the decentralisation of the bargaining systems and the growing demand for flexible employment have dramatically emphasised the need for reconstruction. Consequently, trade unions are undergoing dramatic changes and restructuring while seeking both to maintain their traditional power bases and to establish new power structures. The latter could be exemplified by international agreements such as the European Union's Social Protocol, where some labour-market topics are dealt with by the social partners.[45] Another example could be the formation of a more consultative function vis-à-vis their members on new tendencies in the labour market, for instance HRA.

The problems facing trade unions have led the International Labour Organisation (ILO) to state that 'The inherent risk is one of focusing attention on a purely economic - even econometric - approach to human relations.'[46] This concern visualises the potential consequences of the decentralised and even individualised bargaining systems which are observable in most countries worldwide.

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[42] Danish Ministry of Business and Industry, 1998, p.4.

[43] European Commission, 1995, pp. 70-72.

[44] See ILO (1997), chapters 1 and 2 and OECD (1992) for a detailed discussion.

[45] See for example Dürmeier (1997).

[46] ILO (1997), pp. 222.

However, although in part originating from this development, HRA can also be viewed as an attempt to go beyond the economic approach.

The attempt to go beyond the economic approach is exemplified by LO, the Danish Confederation of Trade Unions, which gives as one main reason for involving itself in HRA the fact that 'LO has certain reservations about tying employee development too closely to technical principles of accounting; and for that very reason, one of the critical points in the knowledge account will be whether we can manage to include the right things.'[47] LO views knowledge accounting as fulfilling not only economic requirements but also social and ethical ones, and it sees HRA in connection with lifelong learning and the learning organisation, i.e. as a means to improve and introduce innovation into the work place.

Specifically, LO lists the following concerns and issues which led them to participate in the development of HRA tools:[48]

- How do we ensure that the employees' 'hard' and 'soft' knowledge are both included in the knowledge account?
- Should we work for amendments to the Act on Financial Statements that safeguard the interests of both the employees and the companies?
- How do we make the issues visible within the public sector in a constructive way?
- How do we ensure continued flexibility in the labour force when the knowledge of the staff is tied even more closely to the individual company?
- How do we create a safety net for the weakest members of the labour-force, now that their knowledge will be measured in even more detail than before?
- How do we ensure that the knowledge account becomes a hard-edged instrument that will support the 'Developing Workplace' and not be just a cosmetic 'gloss' on the existing financial statements?

Flexibility in this context means transferability of competences between sectors and jobs, which contrasts with the enterprises' view; they normally see flexibility as the numerical flexibility of, and competences flexibility within, the existing workforce. Flexibility and its interpretation is thus a potential area of conflict also in HRA. Both views reflect the tendencies in the labour market, but from different angles. The central question is the dilemma between security and flexibility, reflecting not only traditional opposing sides, i.e. employers and trade unions, but also it opposing positions within and between employers and trade unions themselves.

In order to secure as much influence as possible for its members, LO has developed a participatory strategy, i.e. it has developed information and training material so that the members can influence the development of an HRA system. However, it is important to note that this approach is based on the common interests of both the enterprise and the employees. The cornerstone of this strategy is that the employees should be directly involved in and exert influence on enterprises' training and development programmes through informed discussions about the outcome of such programmes. The outcome is divided into work efficiency, creativity, staff turnover and absenteeism, which

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[47] See foreword to LO, 1998. Knowledge account is the name of a human resource accounting system developed by Jan Mouritsen, Professor, for the Agency for the Promotion of Trade and Industry under the Danish Ministry of Business and Industry.

[48] LO, 1998.

reflect both the enterprises' need for profitability and the employees' interest in a good working environment.

3.2.3 Investors

One of the aspects which has triggered the development of HRA is the enterprises' need to provide information externally to investors in order to attract capital: 'The lack of information about human resources in financial reports is well known and requires no documentation. Because of that omission, management and investors are likely to make sub-optimal decisions.'[49] However, it must be anticipated that HRA will also be used increasingly to inform the public about enterprises' social and ethical policies, for instance the abolition of child labour employed by sub-contractors, as a recent case involving the sportswear company Nike exemplifies.

Nevertheless, HRA remains essential as an information tool for investors and potential investors: 'In a world of increasing technological change and shortened product life-cycles, and in a world where "knowledge-work" and intangible assets have become of profound importance, future financial performance is often better predicted by non-financial indicators than by financial indicators.'[50]

The information crucial to investors is precisely that about future performance and, since financial statements only account for roughly 40% to 50% of the market valuation, non-financial indicators will have to supplement financial statements in order to provide more precise information about a company's future potential. Some measurements show that the market to book value ratio has amounted to 177% in EUR15, 249% in the USA and 209% in Japan (1990-1995). This can explain and support a recent study on the creation of productivity and growth which concludes that growth is not primarily due to productivity change but to investment in human and physical capital.[51]

The need for structured information on human resources thus becomes increasingly important for investors, not only because HRA will provide better information on future potential, which is the generally accepted reasoning, but also - and perhaps equally important yet less recognised - on understanding past performance. Not only are traditional balance sheets incapable of reflecting future potential, they also provide insufficient information about how last year's performance was achieved.

Overall, non-financial data are important. A survey of investors revealed that over 60% of the investors asked estimated that non-financial data determined between 20%-50% of the investment decision; 20% gave the figure as 50%-59% of the decision. However, an Ernst &Young survey also investigated the most-valued and the least-valued measures, which are presented in figure 3.2: [52]

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[49] Gleeson, 1975, cited in OECD, 1996.

[50] Ernst &Young, 1997, p. 50. See also Atkinson and Waterhouse, 1996, and Kaplan and Norton, 1996.

[51] Oulton, 1997.

[52] Ernst &Young, 1997, pp. 61-63.

Figure 3.2: The usefulness of non-financial data to investors

Non-financial Data Types	
Most-Valued Measures	**Least-Valued Measures**
execution of corporate strategy	compensation ratios
management credibility	use of employee teams
quality of corporate strategy	environmental & social policies
innovativeness	process quality awards
ability to attract employees	product quality awards

This survey reveals the relative importance of non-financial data to investors' decision-making. Clearly, the enterprises' human resource management is of relatively less interest to investors than it is to other stakeholders.

Nevertheless, some of the topics considered to be of low value do make a contribution to those topics considered to be most valued; for example, implementing environmental and social policies adds to management credibility, as does receiving quality awards; the latter also contribute to the quality of corporate strategies.

3.2.4 Enterprises

HRA is being initiated at the enterprise level. The impetus may be external pressures exerted by investors, trade unions or governments, or internal pressures exerted by trade unions or individuals. Nevertheless, the decision to introduce HRA is taken by the management of the enterprise. As indicated earlier, it is possible to use HRA purely internally but it is hardly possible to use HRA only as an external information tool, since 'External Human Resource Reporting is likely to have a reflective effect on management practices by inducing improved internal information systems and raising the profile of human resource management within organisations.'[53]

The introduction of HRA can be very ambitious: Skandia, a Swedish international insurance company, considers new indicators and collects new data; the Danish Environmental Protection Agency uses existing HRA data. The objectives and results differ accordingly.

Moreover, enterprises in sectors with high knowledge input such as the information and communication sector or service enterprises such as consultancy enterprises will have a higher proportion of intangible values than traditional manufacturing industries. During the period 1990 to 1995 the market value/book value ratio of European enterprises on average amounted to 1.77 (EUR15).[54] The same ratio was even higher for the USA (2.49) and Japan (2.09).

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[53] OECD, 1996, p. 66.

[54] Working document from the European Commission, DGII; DABLE Database on company accounts; values for enterprises included in the database.

This highlights two growing tendencies: the valuation of the enterprise is less and less reflected in traditional balance sheets; and a fast-growing part of an enterprise's value is its human capital. Some companies, e.g. the Greek cement company, Titan, have already started to include depreciation of its social product (salaries, taxes, shareholders' dividends, etc.) in its HRA reporting.[55]

Most commonly, enterprises have introduced HRA to obtain:

- an external information system in order to attract investors
- an internal information system on human-resource issues
- an cost-benefit analysis of investments in human resources
- an improvement in human-resource management

However, it is not only the relationship between the enterprise and its investors and employees which will dominate the development of HRA. Other factors are likely to grow in importance, some of which will be highlighted in the case studies:

- maintenance or improvement of the enterprise's image in society
- an indication of social responsibility and ethical values to the outside world
- improved marketing to present and potential customers
- benchmark human resource management and development
- attracting qualified labour
- retaining qualified labour

There are a number of reasons for the development of the latter aspects. The shift of responsibilities between the private and the public spheres have made enterprises increasingly willing to take on social responsibilities: the emergence of the political consumer will force enterprises to respond to market pressures beyond the actual product being produced (e.g. working conditions, environmental protection and production methods); the Western world's rapidly ageing population will make workers with the right qualifications scarce; and, finally, the decentralised and individualised bargaining pattern will contribute to the mobility of the - well-qualified - labour force, thus intensifying the need for policies to retain the workers.

Titan, the Greek cement factory mentioned above, has for 15 years released a social report which encompasses a broad approach to HRA reporting. Titan includes such aspects as the annual rise in nominal wages compared with the cost of living, its improvement in productivity, the level of training provided for the employees, accident frequency indices for the Titan group as well as its environmental policy, which includes reforestation and voluntary reduction of emissions (far) below the levels required by regulation.[56] Titan's social reports mirror the new patterns in society where employee development is seen as crucial to overall enterprise performance and where enterprises' objectives integrate social responsibilities.

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[55] Titan, 1997.

[56] Titan, 1997.

Rambøll, a Danish-based international consultancy company with nearly 2 000 employees, can illustrate the new aspects. In their HRA called Holistic Balance Sheet, Rambøll have three parameters for satisfaction: customer satisfaction, staff satisfaction and effects on the outside world.[57]

Furthermore, a Danish project testing existing human resource accounts, conducted by the Danish Ministry of Business and Industry, supports the idea that enterprises give a high ranking to human resource development in HRA. Of the 10 Danish and Swedish enterprises included in the project, 9 list human resource development as the main objective in having an HRA. Only 3 enterprises include customers and only 1 enterprise lists investors and external reporting, respectively, in their objectives for HRA.[58]

However, when the enterprises estimate the effects of their HRA, the investors' and external stakeholders play a role almost equal to human resource development, productivity effects and the creation of an enterprise spirit. This indicates that a non-stated objective behind much HRA is actually to acquire information directed towards investors and external stakeholders.

Finally, it must be underlined that the use of HRA is already widespread in some countries; in a survey of human resource managers in companies in the Stockholm area with more than 200 employees, 70% of the respondents said that they were applying HRA in some way; most of the organisations had started to do so at the beginning of the 1990s. An investigation conducted by the Swedish Association of Local Authorities found that 22% of the 276 respondents had decided to use HRA; only between 5% and 15% of the personnel, accounting, and financial managers said they were not interested in HRA.[59]

3.2.5 Employees

There are two tendencies which make it imperative to introduce employees as stakeholders along with trade unions. The first is the weakening of the trade unions and the increasingly decentralised bargaining process, which means that an increasing number of issues are dealt with directly at enterprise level and backed by fewer and more general, centralised agreements. The second is the individualisation of the workforce and, in particular, their competences; their interests seem to vary more than before, depending on age, skill, sex, occupation and sector of activity. Further, the individualisation of competences achieved at the workplace and elsewhere, as opposed to general and uniform qualifications achieved through general and vocational educational systems, favours the creation of individualised contracts.[60]

Consequently, employees are becoming more directly involved in the bargaining process and, hence, there is greater need for individual employees to form opinions on new relations emerging at the enterprise level. This becomes evident when talking about HRA as a human resource management tool and even more so if this tool is also used for external information purposes. For instance, should information on absenteeism be so detailed as to identify individual workers? Yet, while creating risks, HRA does also provide employees with an instrument to improve the work environment (as in Case Study 2), education and training opportunities and career prospects.

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[57] Rambøll, 1997

[58] The Danish Trade and Industry Development Council, 1997, pp. 25-27.

[59] Johanson, 1996. N.B. Johansson refers to the use of HRCA, which is one specific form of HRA.

[60] An analysis of the dilemma of competences achieved outside the formal educational routes can be found in Bjørnåvold, 1997.

HRA can be viewed as an instrument 'to create a new contract between company and employee. The individual takes responsibility for his or her own training. We are trying to create key figures for the new contract. The employee undertakes to seek knowledge and education, while the company undertakes to make the employee suitable for employment ... This can lead to an 'every man for himself' attitude.'[61]

This may be welcomed by individuals with a strong bargaining position but is also likely to have negative effects for the weaker individuals in the labour market. Thus, developing their own knowledge accounts - and subsequent training strategy - may be a new form of security for individuals in the absence of collective agreements or as a complement to such agreements: 'What business value would it have if I took this or that course of training? Perhaps I will be worth something for other companies - and thus the company's risk of incurring costs by getting rid of me will be less.'[62]

However, the individual level is not only about flexibility and continuing vocational training. As indicated under Trade Unions, measuring knowledge is also about transparency and transferability of competences, competences that may be prior or non-formal learning at enterprise level. Thus, a circular development, from initial qualifications to non-formal and enterprise-specific competences, to recognised, transferable qualifications, will be crucial for employees, both as regards their position in a specific enterprise and their position in the labour market in general.

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[61] Jan Mouritsen, Professor, Department of Informatics and Financial Management at Handelshøjskolen København, Quoted in LO, 1998.

[62] Jan Bendix, Graduate Engineer, quoted in LO, 1998.

SECTION 4: CONCLUSION; KEY ISSUES, STAKEHOLDERS AND HRA

Is HRA, after all, just old wine in new bottles? The answer is both yes and no.

Yes, in the sense that HRA was introduced in the early sixties and most of the elements of HRA are well-known and found in many methods, tools and analytical frameworks relating to human resources. No, in the sense that it combines internal and external information needs vis-à-vis costs/benefits of investments, human resource management and the relationship between various stakeholders' interests in enterprises in an environment which is a more transparent and rapidly developing than ever.

In spite of all its diverse elements, HRA can be viewed as having two connected dimensions: the first is accounting, measuring and describing, which includes improved cost/benefit analyses of investment in human resources, notably vocational education and training; the second dimension is the policies or programmes which must be established and implemented in order to alter or improve a current situation at the level of the enterprise, the sector and society.

In establishing HRA and the consequent strategies, it is crucial to decide whether HRA is considered to be about improving balance sheets or supplementing traditional balance sheets. The former leads to a focus on measuring techniques and converting information on human resources into figures to be placed in the balance sheet, whereas the latter leads to a focus on human resource development and innovation in broader terms. These two views are not necessarily mutually exclusive, but will strongly affect the actual design of HRA and, consequently, have different levels of stakeholder involvement and consequences.

In supplementing balance sheets with HRA information, it may prove difficult to properly define and demarcate HRA in such a way that it becomes a regular concept alongside, for instance, green accounting, especially because the stakeholders have different perspectives on HRA. This issue is reflected in the grouping of different HRA approaches presented in this paper, a systematisation which is necessary in order to establish an overview of the current practices.

Nevertheless, despite the advantages of the multiplicity of approaches to HRA in the initial phases, one of the future imperatives will be that of establishing standards of international reporting practices, even if this means adopting a minimalist approach upon which enterprises can develop individual models. Expanding the use of HRA depends primarily on the development of a standardised reporting framework. In this process, it is crucial that the standard report should address all of the primary stakeholders; i.e., it must not be limited to, for example the investors' need for information.

Thus it must:

- incorporate the need for both general regulation and specific information
- incorporate the information needed by all the main stakeholders
- be as much an enterprise-specific tool as a standard human resource account; i.e. it must be applicable to both internal and external purposes

The actual development of a standard reporting framework will depend on whether the stakeholders start formulating clear policies on HRA; Scandinavian governments and social partners in particular have generally begun to adopt a broad definition of HRA.

So far, however, research into HRA has focused mainly on the aspect of providing information to investors;[63] less research has been carried out into the broader objectives expressed by other stakeholders, even though many enterprise-initiated projects have those objectives, as emerges from some of the case studies presented in Section 5 of this report.

Another research approach in HRA is human resource management seen primarily as a management tool. The stakeholder analysis, however, reveals that even though this is one of the main reasons for initiating HRA in enterprises, it too will be influenced by stakeholders both inside and beyond the specific enterprise. Governments, trade unions and employees, in particular, will hold strong views on the actual design of such human-resource management tools.

The initiating stakeholder, the enterprise, may have a number of objectives, but these objectives can only be seen in conjunction with changes in the labour market and in society and, as such, in conjunction with the expressed or perceived objectives of other stakeholders'. Limiting HRA to only one relationship of objectives, say between enterprises and investors (which is the relationship advocated most), will seriously hamper the design of more complex human-resource strategies and place limitations on the tools currently being developed.

This becomes even more evident as legislation on human-resource reporting or social reporting is becoming more widespread, notably in the Scandinavian countries, although other countries, such as France, have established regulations on social reporting.

The complexity of the stakeholders' interests is best illustrated by linking key issues, stakeholders and HRA, as in figure 4.1, since developments in the labour market specifically and in society in general indicate that new structures will be formed; these structures are very much reflected in by HRA systems, albeit to a varying degree, depending on the stakeholder in question.

Figure 4.1: Key issues, the stakeholders and HRA.

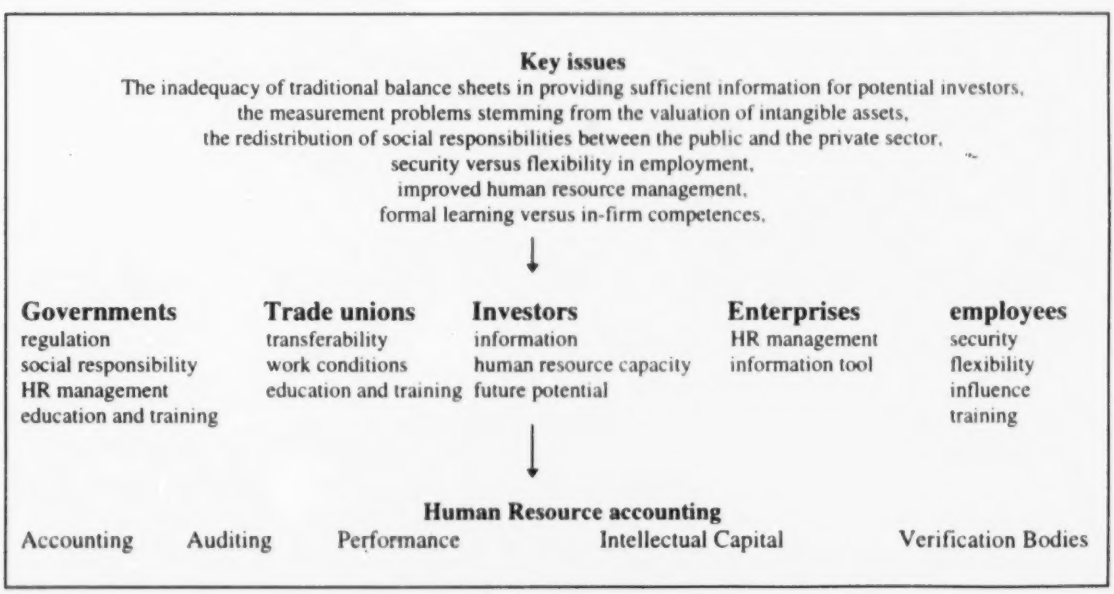

Figure 4.1 provides an overview of the main developments in the labour market and beyond which have created interest in developing a tool which can combine human resource management and

[63] See Ernst &Young, 1997, Gröjer and Johanson, 1996, Johanson, 1996, and OECD, 1996.

make the costs and benefits of intangible assets more transparent. Furthermore, the figure outlines the main objectives of the main stakeholders in developing HRA, be it as an individualised model at enterprise level or as a standardised approach at national or even international level.

Seen in this wider perspective, bridging the gap between traditional accounting and measuring human capital is only one of the objectives of further development. It is equally important to maintain the focus on HRA as a means of overcoming the rigidities of present-day methods of evaluating human resource investments and investments in other intangibles, and as a means of overcoming the shortcoming of present-day human resource development tools, which fail to respond adequately to the rapid development in human competences as well as the rapid development of intangible assets in general.

Human resources are of a different nature than tangible assets such as equipment and buildings and, consequently, they must be reported within a framework developed on this prerequisite.

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SECTION 5: HUMAN RESOURCE ACCOUNTING IN PRACTICE, SOME RESULTS

Many organisations and enterprises have been working with HRA in a formalised and structured way for several years; some of them have published their results. Other organisations and enterprises have carried out isolated HRA projects.

The five case studies presented below, which describe different aspects of the subject, consist of the following: 1 private production enterprise, 1 public service provider, 1 private service provider, 1 public administrative organisation and 1 private production and retail enterprise.

Organisation/ enterprise	Country	Topic	Key performance indicators	Stake-holders	Media
Novo Nordisk	Denmark	Employment rehabilitation policy	Number of employees	Employees	Conferences, internal newsletters
Frederiksborg County	Denmark	The learning organisation	Productivity index, days of absence, staff turnover, savings in money terms	Politicians, employees	Internal newsletters, book published by the external consultant
Skandia	Sweden	Intellectual capital	Value added per employee, number of contracts (total and per employee), training expense per employee, IT /admin. expense	Investors, customers	Every 6 months in separate reports issued with annual or semi-annual financial reports, CD-ROM, Internet
Environmental Protection Agency	Denmark	Demographic description	Staff categories, staff turnover, absence due to sickness, number of employees attending courses	Politicians	Agency annual report
The Body Shop	UK	Surveys on personal learning and development	Days spent on work-based or course-based learning, employee satisfaction with support from The Body Shop	Employees, investors, customers	Comprehensive Values Report every two years

Table 5.1 Overview of case studies

As the table clearly shows, nearly all aspects of HRA can form the basis of reporting to the public, and a number of different media can be used, depending on the target stakeholders. The Novo Nordisk case focuses on an area which in many other enterprises would be considered a problem for

the community and not for the enterprise to solve, namely the rehabilitation of the enterprise's sick employees. Novo Nordisk has proven that focusing on this group of employees can result in a win-win-win situation, as some of the employees may retain their jobs at Novo Nordisk rather than move on to social security.

The findings of the case studies prove that focusing on a specific area results in improved performance in the area in question. A case in point is the Frederiksborg County case, where changing the systems barriers and human barriers through a 'learning organisation' project resulted in material cost savings and an improved work environment for the employees.

Measuring the intellectual capital of an enterprise has been systematised by the Swedish group Skandia. This enterprise has earned itself a good reputation for developing the concepts of and reporting on intellectual capital in a very systematic way.

The Danish Environmental Protection Agency has utilised legal requirements for reporting on 'staff and organisation' to measure a number of HRA performance indicators and for benchmarking other agencies. Through the knowledge obtained by measuring, the agency has developed a staff policy, an IT policy, etc.

The Body Shop has published comprehensive 'Values Reports', which include detailed information on employees. The main part of the data is based on employee surveys and questionnaires. The Body Shop uses this tool to communicate the Group's policies to its employees and to develop new policies in cooperation with employees. Surveys are expected to be used extensively as a source of data in the future.

5.1 CASE STUDY 1

Novo Nordisk - employment rehabilitation policy

Novo Nordisk is a Danish-based international group, listed on the stock exchange in Copenhagen, Zurich, London and New York. Novo Nordisk develops, manufactures and markets pharmaceutical products and industrial enzymes, and has approximately 14 000 employees.

As part of the company's staff policy, Novo Nordisk several years ago adopted the following rehabilitation policy: 'Those of Novo Nordisk's employees who, for reasons of ill health, are unable to manage their current job are, in so far as possible, to be guaranteed continued employment with Novo Nordisk.'

Guidelines have been laid down for the handling of rehabilitation cases establishing, for instance, that cases are to be handled as close to the employee's department as possible; which budget centre is to take on the rehabilitation costs; and what is to be done if the case cannot be resolved within the business area in question.

Novo Nordisk's compensation and labour relations department is following and charting developments in the area. Among its conclusions for 1997 are the following:

- the number of cases has decreased by 20% compared to 1996
- two out of three cases concerned women both in 1997 and 1996
- muscular and skeletal diseases still constitute the main reason for employment rehabilitation
- there is no difference in the age or seniority of cases in 1997 compared to previous years. Women accepted for rehabilitation are slightly younger and have slightly less seniority than men
- fewer cases tend to be solved through voluntary early retirement
- there is continued cooperation with external parties and increased use of grants.

It is evident that most cases arise in basic production, the finished goods area and laboratories.

In 1997, there were 93 new rehabilitation cases, equivalent to approximately 1% of employees. Of these, approximately 60% were concluded at the beginning of 1998. The number of cases, in both absolute and relative terms, is down compared to 1996.

The outcome of cases resolved in 1997 is as follows:

- 33% continued in their own department of Novo Nordisk
- 25% continued in a different department of Novo Nordisk
- 33% took voluntary early retirement
- 9% were resolved in other ways

With this initiative, Novo Nordisk has assumed active social responsibility for its employees. Although no calculations are available, it must be assumed that this policy has had positive results for the employees in question, for the enterprise and for society in general.

The individual employee who gets the opportunity to continue his employment, for instance in a less demanding job at Novo Nordisk, maintains his quality of life, since he keeps his job and his social network. In addition, the individual secures a better financial situation by maintaining his job rather than receiving social welfare.

Without actively making an effort, Novo Nordisk would suffer reduced efficiency, due to more sick leave and reduced performance in the longer term until the employee has to leave the company. In addition, more employees would leave the company, resulting in lost production during the period between one employee's resignation and another one taking up the position, and the company would suffer the direct costs relating to the hiring and training of more new employees.

For society, Novo Nordisk's policy will result in reduced costs, as the number of people on social security income will be lower. Due to the higher standard of living and quality of life for most employees, society will also have reduced expenses relating to the resulting effects on family and relatives.

5.2 CASE STUDY 2

Frederiksborg County - a better working life

Frederiksborg County Authority is one of the largest employers in Denmark with approximately 8 000 full-time employees. The workforce is divided into the Social Sector, the Health Sector, the Educational, Industrial and Cultural Sector, the Technical administration and the management department.

In 1994, the County Council decided to make an annual cut-back of DKK 15 million on the service area - a significant amount. The County Council had two alternatives: to privatise cleaning and other functions or to take initiatives to keep the jobs in the public sector.

The problems in the public sector were identified as hierarchy, job demarcation and the lack of decision-making powers for employees in direct contact with the public. The public sector was to become more open to cooperation and to take on new types of work in addition to its traditional tasks.

A project based on the concept of 'the learning organisation' was launched. The idea behind the learning organisation is that the ability to learn from previous experience - good or bad - and to incorporate new knowledge into the organisation is crucial. The organisation should strive to establish new frameworks and to create an environment which supports knowledge sharing and dialogue beyond job demarcation lines, functions, projects, divisions, countries, etc. In other words, enterprises should focus on:

Breaking down systems barriers and human barriers which undermine social relations, communication, knowledge sharing, dialogue, personal development, creativity, etc., and
establishing organisational forms, systems and structures which encourage the sharing of knowledge and experience and create an environment that stimulates individuals to seek knowledge and personal development.

In other words, the learning organisation is about changing management systems, culture and conduct and introducing high-performance teams in order to create organisations prepared for change, i.e. total enterprise integration.

The County's project was to create a better work environment, improve cooperation and ensure greater delegation of responsibility and competency. The efficiency targets were expected to be met within the scope of this project, and the project included a major training programme which included, among other things, training the County's own employees to instruct one another. Great emphasis was placed on the operation of new employee teams and on enhancing the qualifications of low-skilled employees.

The key criteria of success included:

- good cooperation with the unions. This is particularly relevant, as the project greatly affected job demarcation and the working conditions of employees. Despite the reduction in the number of employees, the unions maintained a constructive dialogue, thus influencing the future workplace, with greater emphasis on staff policy and on expanding the competency and responsibility of the employees

- constructive cooperation with the training institutions. It was a big challenge for the teachers to take part in a project to develop an organisation rather than teaching a fixed syllabus
- solving temporary problems with staff. As large numbers of employees were in training during working hours, it was necessary during those periods to hire temporary staff for their positions
- ensuring that enthusiasts were placed in key positions in the project. It was paramount that the County management was committed and that the project enthusiasts kept faith in the learning organisation concept as the right solution.

The success of this project can be highlighted by examples from two county institutions. The first example concerns a relief institution[64], where teams have been established and common values, rules and norms implemented throughout the institution. This visionary process aimed at creating a common goal, and the result is outstanding: for example, the number of relief days has been doubled without doubling staff. In concrete terms, this means that 100 families now receive relief with the same amount of resources previously sufficient for only 50 families.

This positive result has led to the institution's developing new relief methods on its own initiative, and the institution has developed a happy and creative atmosphere.

The second example concerns an institution whose residents were prone to violence. Previously, around 600 instances of residents hitting staff were reported annually. After the institution started working as a learning organisation, the number of incidents reported fell to 60 a year. As a consequence, absence due to sickness among staff has fallen by a third. Furthermore, the average employment period for staff at the institution before the start of the project was two years, due to the tough working conditions; in the first year after implementation of the project there were no resignations.

Financial evaluation of the project

The project has not yet been completed, but the necessary annual DKK 15 million cut-back has been achieved. The cut-back has been achieved by removing job demarcation lines, which saved time and so reduced staff. In addition, the improved working environment and job satisfaction has meant a marked reduction in absence due to sickness, which in turn has a positive financial effect. Following the success so far, the county and the individual institutions are still working on setting up procedures for measuring the effects of the project, identifying key performance indicators, updated procedures, etc.

Communication

The County management group identified employees, local management and the County Council politicians as the target audience for communication about the project. The unions identified union members and others as the target audience for their communication.

One way of communicating about the project is by publishing brochures written in cooperation with the County management group. Another means of communication has been to participate in conferences, etc.

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[64] Specific Danish institution designed to, for instance, relieve the family with a multi-handicapped child for a period of a weekend or a week.

5.3 CASE STUDY 3

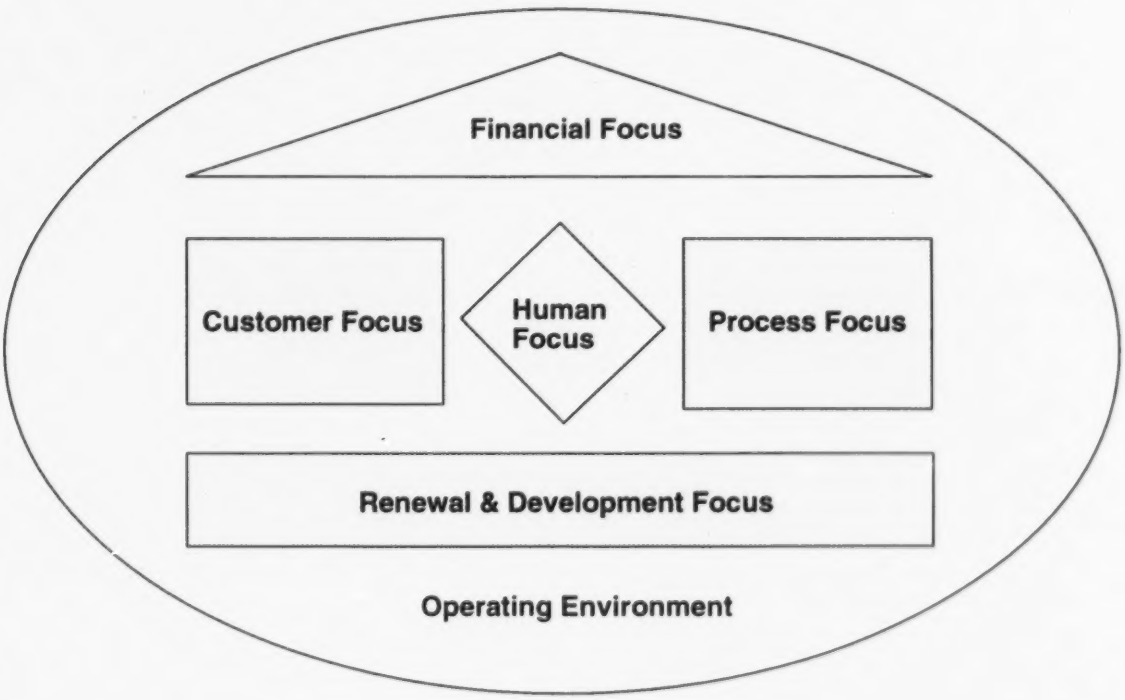
Skandia - reporting on intellectual capital

Skandia is one of Sweden's largest service companies and is listed on the Stockholm Stock Exchange. The company does business in insurance, real estate and banking, both domestically and internationally. The company has been recognised for developing a concept for measuring and reporting on intellectual capital since 1994.

Reporting to the public has taken place twice a year since 1994, basically as separate reports issued together with annual or half-yearly financial reports. Each new report, about 15-22 pages long, has focused on a special topic.

Skandia's definitions of intellectual capital and connected terms and definitions are described in Section 2. Skandia's reporting model, Navigator, is influenced by the concept of the balanced scorecard, which is an internal management tool.

The following figure depicts the concept of Skandia's reporting model:



For each of its business lines, Skandia reports on a number of focal points. For its subsidiary American Skandia, which provides variable annuities (unit-linked assurance) in the American market, the report as of 30 June 1997 was as follows:

	1996	1995	1994*	1993*
Financial Focus				
Return on capital employed (%)	31.3	28.7	12.2	24.3
Operating result (MSEK)	579	355	115	96
Value added/employee (SEK 000s)	2 206	1 904	1 666	1 982
Customer Focus				
Number of contracts	133 641	87 836	59 089	31 997
Savings/contract (SEK 000s)	396	360	333	371
Surrender ratio (%)	4.4	4.1	4.2	3.6
Points of sale	33 287	18 012	11 573	4 805
Human Focus				
Number of employees, full-time	418	300	220	133
Number of managers	86	81	62	N/A
Of whom, women	27	28	13	N/A
Training expense/employee (SEK 000s)	15.4	2.5	9.8	10.6
Change in company's IT literacy (%)	N/A **	+2	+7	N/A
Process Focus				
Number of contracts/employee	320	293	269	241
Adm. exp./gross premiums written (%)	2.9	3.3	2.9	2.6
IT expense/admin. expense (%)	12.5	13.1	8.8	4.7
Renewal and Development Focus				
Share of gross premiums written from new launches (%)	23.7	49.2	11.1	5.2
Increase in net premiums written (%)	113.7	29.9	17.8	204.8
Development expense/adm. exp. (%)	9.9	10.1	11.6	9.8
Proportion of staff under 40 years (%)	78	81	72	74

* *Accounting-based indicators for 1994 and earlier have not been recalculated in accordance with the new Swedish Insurance Annual Accounts Act, which took effect on 1 January 1996.*

** *New measurement method under development*

It can be seen that Skandia has developed a number of performance indicators for each of the five focal points and it reports consistently on these indicators every 6 months.

5.4 CASE STUDY 4

Environmental Protection Agency - agency annual report

In 1995, the Danish government decided to launch projects designed to develop annual agency reports for a number of government agencies. The pilot scheme comprised 70 government agencies in 1996 and has from 1997 become compulsory for all government agencies meeting certain criteria of size and appropriation status. Annual agency reports should be closely linked to the budget for the year in question (the parliamentary appropriation).

The primary target group of annual agency reports is the department of the relevant ministry, the Auditor General and the Public Accounts Committee, as well as the Finance Committee and Parliament. Secondary target groups include users of the services of the institution in question, the Ministry of Finance, the general public, labour-market organisations, other interest groups and private suppliers of competing services.

The annual agency reports are prepared with public availability in mind. Similar, high-quality accounts are found in Norway and Sweden, among other places. The main contents of the annual report are:

- a narrative description of the agency as a whole, including its objective and assignments, as well as its budgetary and financial situation, etc.
- reliable reports on the financial and professional situation for the year, competition, etc., including:
  - a description of financial and professional achievements
  - an explanation of the difference between budgeted and realised result
  - a description of activities carried out compared with goals set
  - a basis for assessment of financial considerations
  - a basis for benchmarking with other government institutions

The standard contents of agency annual reports are as follows:

1. Statement of revenue and expenditure
2. Profit and loss analysis
3. Staff and organisation
4. Grant statement
5. Construction statement
6. Environmental accounts (not required)

What is of interest for the purposes of this discussion paper is the requirement for a report on staff and organisation. Such a report should cover the following:

- staff time (in man-years) for the accounting year and the three previous years, and budget figures for the following year
- absences due to sickness for the accounting year and the three previous years
- staff turnover for the accounting year and the three previous years
- overtime and additional work for the accounting year and the three previous years

- description of organisational structure and organisational chart
- analysis and evaluation of development.

As an example of how a Danish government agency has chosen to present its staff relations, part of the relevant section of the Danish Environmental Protection Agency's financial statements for 1996 is cited in the following:

Staff policy

The primary aim of the Danish Environmental Protection Agency's staff policy is to create a basis to ensure that the Agency, as part of a political and administrative system, can perform current and future work assignments at a highly professional and resource-efficient level. The key words are readiness for change, adaptability and flexibility. The Agency's main resource is its employees, and the staff policy is used as a means to recruit and keep qualified staff and to develop and enhance the motivation and qualifications of individual employees.

The staff policy is thus designed to ensure that the Agency's staff mix and profile are suitable for achieving the Agency's overall goals, strategies and visions. In addition, the staff policy must fulfil the broad spectrum of demands which the professionally very varied staff make of their workplace.

The pivotal point of the Agency's staff policy is the annual appraisal reviews. A number of minor adjustments were made to the staff review concept at the end of 1996, based in part on a very positive external evaluation in 1996 and discussions at the Agency's Staff Conference in the autumn of 1996. The Agency has implemented its staff policy in a number of agreements in the following main areas: recruitment, induction, skills development and career, mobility, working life and family life, working relations forums, working hours, work environment, etc.

Table 5.2 Staff categories

Staff category	**Distribution, end 95**	**Distribution, end 96**
Management (grade 37-39)	6.4%	6.2%
Consultants (35-36)	2.7%	3.5%
Middle management	22.3%	24.6%
Academic technicians (AC)	31.7%	32.6%
Administrative staff	31.2%	28.6%
Other	5.7%	4.5%
Total	**100.0%**	**100.0%**

Middle management consists mainly of academics with a social science degree. AC technicians consists of academics with a technical degree: i.e. engineering, physics, agricultural science, pharmacy, veterinary science, etc. The category 'Other' comprises security staff, assistants, student workers, etc. The relative distribution of the Agency's employees at the end of 1996 shows a continuation of the long-term trend towards expansion of the middle management and AC technician categories at the expense of administrative staff continued.

Table 5.3 Staff turnover (permanent staff only)

	1995	1996
Engagements	60	69
Resignations	43	43
Gross staff turnover as % of man years	**28%**	**28%**

Engagement and resignation of permanent staff during the period, including job rotation to and from other agencies within the ministerial area and to and from the Environmental Protection Agency.

Table 5.4 Absence due to sickness

	1995	1996
Number of man years	372	397
Number of days of absence	3,217	2,857
Number of days of absence per man years	**8.6**	**7.2**

Calculated as number of days of absence on weekdays due to sickness.

The average number of days of absence due to sickness within the public sector in 1995 was 7.1 days per employee. In the above table, absence due to sickness is calculated in terms of man years, and the average absence data is thus not immediately comparable. Using an estimated average number of employees with the Agency in 1995, the Agency's average number of days of absence due to sickness is approximately 1 day per employee above the public sector average for 1995, while the estimated average per employee in 1996 was reduced to approximately 6.8 days (i.e. below the 1995 public sector average).

Skill development and supplementary training

The handling of day-to-day work assignments in the Danish Environmental Protection Agency places great demands on the staff. As mentioned earlier, one of the principal objectives of the staff policy is to develop and enhance the motivation and qualifications of each employee from a quality control perspective as well as with a view to securing and recruiting staff.

The most important skill development is in the form of in-house training for varying types of work. The Agency seeks to enhance the skill profiles of individual employees through diverse tasks which have professional and personal development potential. The Agency has a tradition of giving each employee personal responsibility and, as much as possible, of letting employees follow a case from start to finish. In addition to workplace training, employees' skills are developed through various forms of supplementary training such as secondment, participation in courses, etc. The supplementary training of individual employees is set out at the appraisal reviews. The course-based supplementary training of the Environmental Protection Agency is planned and coordinated in the Central Supplementary Training Committee.

Supplementary training includes the Ministry's compulsory basic training course for new employees as well as the selection of courses common to the ministerial area. In 1996, 313 of the Agency's employees attended 884 courses. In comparison, 267 Agency employees attended 606 courses in 1995. In 1996, an overhaul of the ministry's common supplementary training system was launched with a view to establishing a new basic training programme, technical courses and a modular superstructure. Supplementary training activities within the Environmental Protection Agency in 1996 included:

- implementation of a special supplementary training programme for employees on international assignments
- implementation of a specialised accounting course for administrative staff
- continued implementation of a special supplementary training programme for IT superusers
- a special programme in connection with Project Electronic Workplace for all employees

The increasing number of international assignments undertaken by the Agency has necessitated the institution of a supplementary training programme for employees on international assignments. In addition to assignments under the auspices of the EU, the Scandinavian countries and other international forums, the Agency has since 1991 undertaken assignments under the auspices of the Danish Ministry of Foreign Affairs related to environmental assistance to Central and Eastern Europe and certain developing countries. The international project work, in particular, places new demands on its employees, which the Agency seeks to address with the special programme for employees on international assignments.

In 1996, the Environmental Protection Agency continued its implementation of a staff administration system. This system rationalises staff administration and helps achieve a more systematised staff development.

As the above demonstrates, the presentation is very open, incorporating policies and details from the staff interview programme, benchmarking on sickness, etc. The presentation includes a significant amount of specific data.

5.5 CASE STUDY 5

The Body Shop - use of surveys

The Body Shop is an international chain which makes and sells skin and hair care products and has over 1.500 branches in 47 markets throughout America, Europe and Asia. Most of the shops and branches are owned by franchisees. The main headquarters are located in Littlehampton, England. The founders and main shareholders of The Body Shop, Anita and Gordon Roddick, have committed themselves and The Body Shop to sustainable development. That includes, among other things, measurement of social performance and carrying out the processes of social and ethical auditing.

In 1997 The Body Shop published their second 'Values Report', a comprehensive 220-page report. This report includes comments on the pursuit of social and ecological changes regarding employees, franchisees, customers, suppliers, shareholders, the community, the environment and animal protection. The section on employees is 40 pages long and covers topics such as company aims, progress on environmental targets and performance relating to employees, employee consultation, employee views, occupational safety and health, animal protection performance standards relating to employees and new targets.

The 27-page section on employee views covers a number of topics including views on The Body Shop's mission and values, learning and development, career development, diversity and equal opportunities, communication, work satisfaction, working for The Body Shop, pay and benefits and The Body Shop's actions in response to the social audit. Each of the subsections includes figures (tables and graphs) apparently taken from the files of the HR departments, results from comprehensive surveys in 1995 and 1997 and comments (quotations) from the employees.

The quotation below is taken from the section on Personal Learning and Development:
'Following a company-wide reorganisation in 1994, a formal unit responsible for learning and development activities across all head office divisions was established within the Human Resources function to facilitate a more cohesive approach to training and learning and development in all head office and supply areas. By mid-1995 the Learning and Development unit had grown from one full-time training manager to a team of seven. In early 1997 it was decided that the Learning and Development unit should be established as an independent department and report to the newly established executive post of Stakeholder Development. The Learning and Development department now employs seven Learning and Development experts as well as a team of five support staff. In addition to these, there were 13 full-time UK positions directly related to retail training activities. These were mostly field-based trainers offering in-store support to both Company and franchised shops.'

The Learning and Development department continued to reinforce the new approach to training, which was developed and introduced during 1995. The learning and development strategy adopted by the Company emphasises the employees' assumption of more proactive responsibility for their own development, especially regarding proposals for development plans, and actively encourages them to seek learning opportunities.

The Body Shop published a Rough Guide to Learning in 1995. During the 1995/97 audit cycle, key initiatives launched by the Learning and Development team included the setting up of three learning centres across the head-office sites which allow employees to access a wide and varied range of

information at the time most convenient for them. Within the first year, the centres were visited by 371 people.

The 'Learning is of Value to Everyone' (LOVE) scheme, which is aimed at supporting personal, rather than professional, development initiatives of staff by subsidising associated costs up to £100 a year, was extended from the Supply division to the rest of the company. Between August 1996 and February 1997, 380 people took the opportunity to learn something new.

A senior management programme and a number of other managerial and supervisory development programmes were developed and implemented during the audit cycle. Key programmes included: five supervisory programmes (43 participants); management skills programme (29 participants); and the first-ever comprehensive senior management development programme (16 participants). Other initiatives have included developing a programme called 'Sharing the Vision,' which is offered to senior managers who have joined the company during the last two years and which fosters greater understanding of the company's social and environmental agenda (46 managers participated between 1995 and 1997). Fourteen managers have also attended a programme, designed by The Body Shop in conjunction with other partners, called 'New Ways of Thinking and Working' at a leading management training centre at Roffey Park.

Prompted by the first social audit results, the Learning and Development unit explored the issue of professional qualifications further. The first employee survey results regarding how the company encourages employees to gain qualifications were moderate. The issue was explored in focus groups and discussed with the operational HR areas of the company; subsequently, a new policy and guidelines were introduced to clarify what support was available for those wishing to pursue further education and gain qualifications.

In the absence of a company-wide recording and monitoring system at departmental level regarding learning and development activities undertaken by employees, the social audit survey in 1997 continued to solicit information on employees' learning and development activities.

Rather surprisingly, the recalled number of days spent on work-based learning has declined since 1995. Thirty-five percent of all respondents recalled not having spent any time on work-based learning in contrast to 31% in 1995, and percentages in other categories also showed a slight downward trend (see Table 1.3). From Table 1.3 it is clear that employees in the company-owned shops spend much more time on work-based learning compared to those employed in other key areas of the business, especially to those working in the Supply division.

The number of recalled days spent on course-based learning was slightly mixed compared to 1995. Although the number of employees who could not recall any courses attended decreased by 2% and the number of employees having spent more than 10 days on courses increased by 1%, the situation remained largely the same as in 1995. A slightly different divisional picture emerged compared to work-based learning: company shop employees are well above the average in categories from one to five days of courses, but below average in six days and above categories; the situation is reversed in the Supply areas.

Table 5.5 **Number of days spent on work-based learning in the last 12 months (e.g. coaching, job swap, reading, training videos, team building sessions, secondment, etc.)**

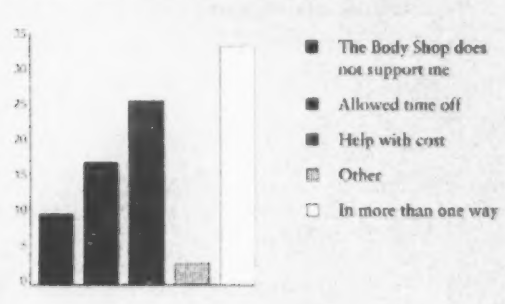
No of days	1995	1997			
	Total	Company shops	Supply	Offices	Total
None	31%	18%	46%	37%	35%
1-2 days	28%	34%	18%	30%	27%
3-5 days	18%	18%	14%	17%	16%
6-10 days	11%	12%	11%	8%	10%
More than 10 days	12%	14%	9%	7%	10%

Table 5.6 **Number of days spent on course-based learning in the last 12 months (both internal and external courses)**

No of days	1995	1997			
	Total	Company shops	Supply	Offices	Total
None	44%	39%	51%	36%	42%
1-2 days	25%	34%	16%	27%	25%
3-5 days	17%	14%	15%	19%	16%
6-10 days	8%	7%	9%	9%	8%
More than 10 days	5%	3%	8%	8%	6%

In addition, the social audit survey continued to ask employees whether they had any professional qualifications and whether they were currently studying for a work-related qualification. The results show that 17% of all respondents had qualifications, compared to 11% in 1995; 21% were studying for a qualification, and 10% of these maintained that this was work-related. The survey further queried how The Body Shop supported those studying for a work-related qualification; the breakdown of the support provided is summarised in Graph 1.1.

Graph 1.1 Support received from The Body Shop to study for a work-related qualification


% of those studying for a work-related qualification
The Body Shop does not support me
Allowed time off
Help with cost
Other
In more than one way

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The questionnaire explored levels of satisfaction regarding a wide range of different aspects of personal learning and development. The following provides an overview of the key results.

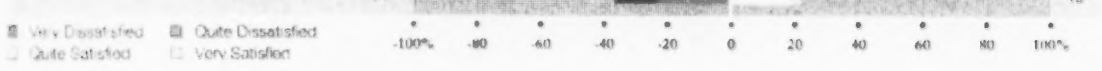
In general, an upward trend can be observed in the levels of satisfaction regarding personal learning and development (see Table 1.5). The biggest increase is related to the way The Body Shop was perceived to encourage employees to obtain qualifications; the overall level of satisfaction increased from 14% in 1995 to 24% in 1997. The response was similar in all key areas of the business. However, employees in the Supply division expressed more dissatisfaction compared to other parts of the company (four percentage points higher than the average) and employees in the office areas expressed lower levels of dissatisfaction compared to the overall results (five percentage points lower than the average). As mentioned earlier, prompted by the results of the first survey, the company introduced a policy and specific guidelines on the support extended to those wishing to obtain work-related qualifications. In addition, a number of in-house programmes leading to a qualification and tailored to the company's needs were introduced during 1995/97. At the end of the audit period, 114 people were participating in such courses.

Similarly, a positive trend can be observed regarding more general attitudes toward opportunities to receive training to improve skills for current jobs (satisfaction level up by four percentage points); opportunities for personal development and growth in the company (up by five percentage points); and learning and development opportunities available for future opportunities in the company (up by six percentage points). In general, the results from company shop and office-based staff resonated with the overall trends of improved satisfaction levels. However, the results from the Supply division were noticeably lower (down nine, nine and seven percentage points respectively compared to the company averages). Further, office-based staff were noticeably more satisfied with the learning and development opportunities available for future job opportunities compared to the overall result (up seven percentage points compared to the average).

Satisfaction regarding how employees are encouraged to gain work experience in other parts of the company improved only slightly compared to 1995, remaining the lowest-scoring learning and development tool. The whole area of secondments and work experience is currently under review, and no comprehensive company-wide guidelines exist at the moment, although there has been an increase in the number and types of secondments offered.

Table 1.5 Satisfaction specific aspects of personal learning and development (%)

Aspects of learning and development		Neither
Opportunities to receive training to improve my skills for my current job	95 97	28 28
Opportunities for my personal development and growth in this Company	95 97	31 29
The learning and development opportunities available for my future job opportunities in the Company	95 97	34 35
The way my appraisal/review was carried out	95 97	- 27
The outcome of my appraisal/review	95 97	- 30
The way new employees are welcomed/ trained in my department/shop	95 97	27 24
The way The Body Shop encourages me to gain working experience in other parts of the business	95 97	35 36
The way The Body Shop encourages me to obtain qualifications	95 97	41 42
Training on business issues (eg products, financial performance, productivity)	95 97	38 40
Training on HR practices and policies	95 97	- 43



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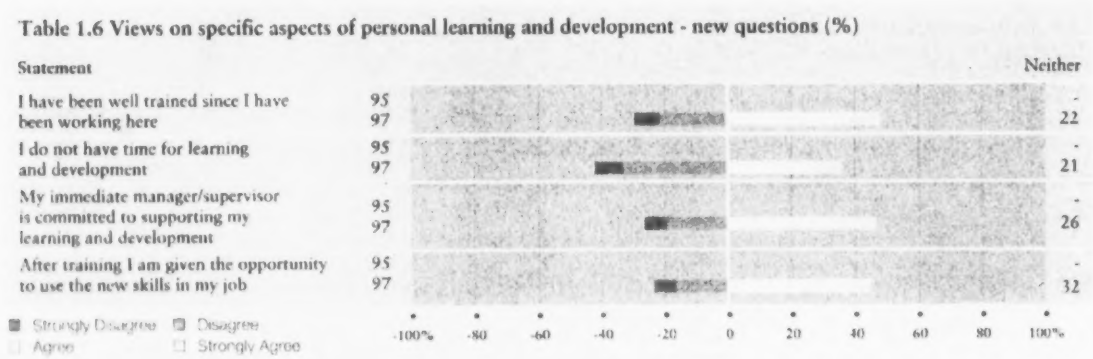
In contrast to the above, employees' views on how new employees are welcomed and trained on joining the company improved by five percentage points: office-areas being close to the average increase, company shop employees expressing the highest satisfaction levels (14 percentage points higher than the average) and Supply division employees expressing far lower levels of satisfaction (17 percentage points lower than the average). Development of the two-day company-wide Induction Programme offered to all head office and Supply division employees continued during 1995/97. A new welcome pack was designed for all new starters and a 'buddy scheme' introduced, whereby new starters are linked with a partner to help them settle in.

The survey explored attitudes on general training in human resources-related issues for the first time. The results were moderate, with only 22% expressing satisfaction and 43% not expressing an opinion either way. This is an area of training that has been undertaken in an ad hoc way and through a number of approaches; the results reinforce the need for a more structured process. The survey also explored attitudes to appraisals for the first time. The overall view regarding how appraisals are carried out received one of the top scores amongst learning and development issues (53% either satisfied or very satisfied). Similarly, satisfaction levels were amongst the top scores regarding the outcomes of appraisals (51% either satisfied or very satisfied). However, this clearly leaves room for improvement, considering that appraisals are encouraged to be an opportunity for a two-way discussion for identifying mutual development needs. Results from different areas of the business were similar, with company shops leading the way slightly.

Table 1.6 Views on specific aspects of personal learning and development - new questions (%)



As the example illustrates, the management of The Body Shop regularly carries out very extensive surveys among its employees. The results of the surveys are compared to results of previous surveys as well as (although not in this example) to internal objectives and external benchmarks.

Employee surveys have gained significant prominence in the past decade and must be considered a permanent tool in Human Resource Accounting.

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Human resource accounting: interests and conflicts
A discussion paper

Jens V. Frederiksen
State authorised public accountant, KPMG C. Jespersen, DK-Frederiksberg

Sven- Åge Westphalen
CEDEFOP, GR-Thessaloniki

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Fax (357-2) 66 10 44
E-mail: info@ccci.org.cy

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Fax (48-22) 826 62 40
E-mail: ars_pol@bevy.hsn.com.pl

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RO-70749 Bucuresti
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A discussion paper

Human resource accounting is about measuring the value of human resources in enterprises, which can include figure and non-figure reporting on such issues as costs and benefits of training, staff turnover, absenteeism, the value of employees' knowledge, etc. This publication contains the following three elements:

(1) a presentation and definition of the main terms used in human resource accounting;

(2) identification and discussion of the main stakeholders — governments, social partners, enterprises and employees — and their positions on human resource accounting; and

(3) five case studies on reporting on human resources which include public and private enterprises/organisations as well as production, retail and service enterprises.

Jens V. Frederiksen, Sven-Åge Westphalen

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